



**Institute for Energy Economics
and Financial Analysis**

Louisiana Industrial Tax Exemption Program (ITEP)

2016 Reforms Net Parish Governments \$282 Million

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Key Findings

- 1** Local leaders are using new authority under 2016 reforms to Louisiana's Industrial Tax Exemption Program to balance business and community interests.
- 2** Reforms increased annual industrial property tax revenue by more than \$280 million between 2016 and 2021.
- 3** Annual revenue increases of \$113 million for schools, \$55 million for law enforcement, and \$115 million for other parish services have been generated by the reforms.

Executive Summary

Louisiana's Industrial Tax Exemption Program (ITEP) was long recognized as one of the most generous industrial subsidy programs of any state in the country. Before the program was reformed, applications for tax exemptions were made by a state board—with no input from the local jurisdictions whose tax revenues would be directly affected.

In 2016, Louisiana Gov. John Bel Edwards issued two executive orders to reform ITEP, based on the recognition that the program was costing local governments substantial revenue without helping the state to attract industry. The reforms reduced the total value of the possible tax exemption, introduced a job creation provision and—critically—required that applications be approved by the local government bodies whose tax revenues were affected.

IEEFA analyzed the impact of the 2016 reforms and found:

- The percentage of industrial property that was actually taxed, as opposed to exempted, increased from 37% in 2016 to 50% in 2021, averaged across parishes.¹
- Annual industrial property tax revenue increased by more than \$280 million between 2016 and 2021. The increase was due almost entirely to the ITEP reforms.
- More than 90% of the increased revenue was concentrated in the 15 parishes with the largest manufacturing bases.
- The reforms have generated additional annual revenues of \$113 million for schools, \$55 million for law enforcement and \$115 million for other parish services.
- The most important revenue-related aspect of the 2016 reforms has been the requirement that companies justify their applications before the local governing bodies. The reform has dramatically changed the behavior of corporations by significantly reducing the number of applications and shifting applications towards investment in new facilities, instead of additions or renovations.

¹ The analysis did not include real estate or inventory industrial property, neither of which was eligible for ITEP exemptions and therefore was not affected by the ITEP reforms.

- In almost every case where an ITEP application was partially or completely rejected by local governing bodies, the project still proceeded—showing that the pre-reform ITEP program was not a major factor in the location of industrial projects.

Introduction

This report analyzes the impact of reforms made to Louisiana’s Industrial Tax Exemption Program (ITEP) in 2016.

From its inception in 1936 until 2016, ITEP was one of the largest state industrial subsidy programs in the nation, offering a 100% property tax exemption for as long as 10 years on capital investments by industrial manufacturers.² It has been called a “perverse incentive,”³ “the nation’s most notorious property tax abatement system,”⁴ and a “\$2 billion welfare plan that raises taxes and kills jobs.”⁵ In practice, ITEP resulted in a significant loss of public revenue in a manner that was not targeted either to attract new investment or create jobs:

- The Board of Commerce and Industry, which has the authority to approve the exemptions, received about 12,000 applications for exemptions from 1998-2016. It approved 99.95% of them.⁶
- Between 2000 and 2016, 97% of the projects that sought property tax exemptions had already been completed when their requests were filed.

² Eligible applicants included new manufacturing facilities and additions to existing manufacturing facilities, as well as improvements, replacements in excess of original cost or resulting from a disaster, permanent office fixtures, and “miscellaneous capital additions.” Eligible property included manufacturing facilities and buildings, leased property, and capitalized materials, but not inventory or land. Miscellaneous capital additions were defined as “an accumulation of capital assets placed in service during the previous ad valorem tax year,” which “must be part of a project that is completed within an 18 month period, and may not exceed \$5,000,000.” (See: Pre-reform ITEP rules, Louisiana State Code Title 13 Chapter 5, as amended 2011). Prior to 2016, the vast majority of applications (75%) were for “miscellaneous capital additions.” Although the projects were individually capped at \$5 million, we noted more than two dozen instances between 2000 and 2016 of companies filing at least three such applications on the same date, each just under the cap, taking advantage of the loophole to exempt much larger quantities of capital.

³ *The Advocate*. [Louisiana’s costliest incentive program allowed manufacturing companies to cut jobs while saving billions in taxes](#). December 16, 2017.

⁴ *Shreveport Times*. [Caddo Parish, Louisiana lose third of property taxes to incentives](#). February 28, 2018.

⁵ *The Hayride*. [GOP Politicians Are Pushing A \\$2 Billion Welfare Plan That Raises Taxes And Kills Jobs](#). November 12, 2018.

⁶ From 1998 to 2016, 99.95% of applications were approved and only eight were rejected. See: Together Louisiana. [Giving Away the Farm](#). August 2017.

- From 2000 to 2016, only 4% of the exemptions went to new projects; only 3% were given to facility expansions.
- There was no requirement that the companies receiving exemptions create jobs.

ITEP was excessively generous, in part because decisions on applications were made by a state-appointed board with the authority to grant tax breaks that resulted in lower revenues for local governments.⁷ For the most part, no evidentiary threshold was required for approval. The Board of Commerce and Industry frequently granted applications *in globo*, meaning that it would vote for or against (in practice, only for) all ITEP applications under consideration at a given meeting. In 2015, the board granted more than 600 ITEP exemptions during four meetings, without considering a single application individually.⁸



Louisiana's ITEP has been extraordinarily generous to industry compared to other states.

The consequences of the bifurcation between decision-making authority over tax exemptions and local budgetary and political responsibility have been significant. In 2016, according to IEEFA analysis (see Appendix B):

- 63% of all industrial property across the state was tax-exempt.⁹
- \$45 billion of industrial property was off the tax rolls.
- School districts lost \$327 million in tax revenues; local law enforcement lost \$145 million.

⁷ *The Advocate*. [No Strings Attached: Thanks to tax breaks, Cameron Parish government struggles amid industrial boom](#). December 17, 2017.

⁸ Board of Commerce and Industry meeting minutes for February 24, 2015; April 28, 2015; June 23, 2015; and August 25, 2015. The board granted additional ITEP applications *in globo* at its October 27 and December 8, 2015, meetings but the meeting minutes do not specify the number of applications approved.

⁹ Refers to all forms of industrial property except land or inventory, which as noted in footnote 1 above, are not eligible for industrial tax exemptions and so were unaffected by the ITEP reforms.

Louisiana's ITEP has been extraordinarily generous to industry compared to other states. In Texas—Louisiana's main competitor for attracting oil and petrochemical-based manufacturing—the tax exemption program is locally controlled, includes job creation and capital expenditure thresholds for eligibility, and does not allow maintenance capital to be eligible for exemption. Louisiana Economic Development concluded in a July 2016 report that, as a result of this structure, Texas counties “remain competitive with Louisiana but forego less in local revenue.”¹⁰

Louisiana Economic Development acknowledged that the ITEP program was costlier than industrial property tax exemption programs in other states before being reformed: “Louisiana's competitor states have often been able to forego less in local revenue while remaining just as competitive.”¹¹

The 2016 ITEP reforms were a response to policy proposals developed by Together Louisiana, a statewide network of community organizations and non-profits. The changes included a reduction of the maximum exemption from 100% to 80%; creation of a weak jobs requirement; discouraged exemptions for routine capital expenditures; and most significantly, established a requirement that local entities with taxing authority approve any new exemptions.¹²

This report assesses the impact and effectiveness of these reforms by analyzing property tax and ITEP data pre- and post-reform. It asks: To what extent have the reforms changed the percentage and amount of industrial property exempted under ITEP? To what extent have they changed property tax collections? What aspects of the reforms seem to have made the biggest difference? Have the reforms dampened potential economic investment?

The methodology for answering these questions is to identify a sample group of approximately 200 of the largest industrial manufacturers (aggregated by parish) statewide. Then, we compare a pre-reform, 2016 baseline assessment of taxable and exempt property with the figures from a post-reform, 2021 assessment.¹³

¹⁰ Louisiana Economic Development. [Overview of the Industrial Tax Exemption Program \(ITEP\): Task Force on Structural Changes in Budget and Tax Policy](#). July 2016, p. 18.

¹¹ *Ibid.*, p. 2.

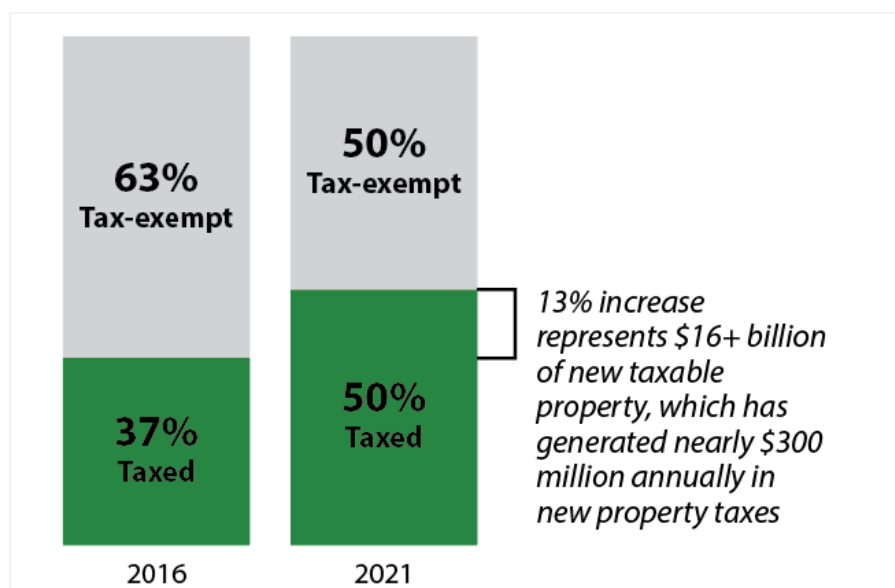
¹² Refer to Appendix A for detailed description of the reforms.

¹³ Refer to Appendix B for further details on research methodology.

Findings

The comparison between 2016 and 2021 property assessments shows that the percentage of industrial property statewide that generates taxes has increased from 37% to 50% in the wake of the reforms.¹⁴ There has been a corresponding decrease in the percent of industrial property that is tax-exempt. In 2016, 63% of industrial property was exempt from taxation under ITEP. By 2021, only 50% of it was exempt.

Figure 1: Louisiana's Taxable Industrial Property Grows Under ITEP Reform



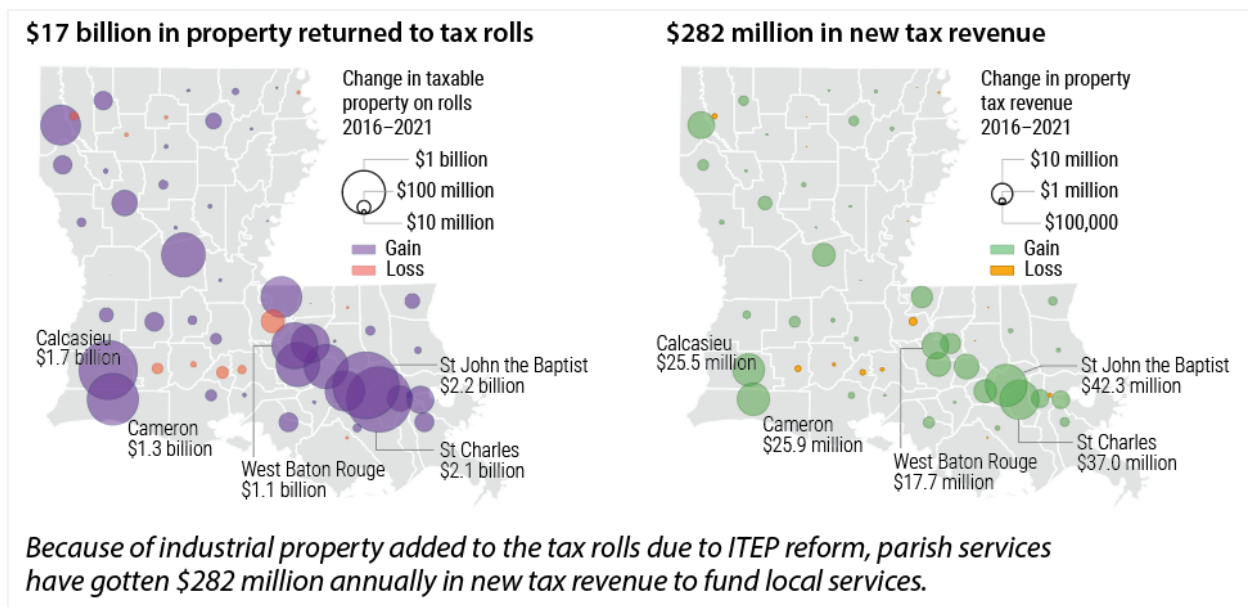
Source: Louisiana Tax Commission, Louisiana Economic Development.

According to IEEFA's analysis, this large-scale shift has occurred because ITEP reforms have added more than \$16 billion of industrial property to tax rolls. The property otherwise would have been exempt from taxation.¹⁵ The increase in taxable property is highest in parishes that have the highest concentrations of manufacturing facilities.

¹⁴ Statewide total represents the average of parish-level taxable and tax-exempt percentages.

¹⁵ See Appendix B for further detail.

Figure 2: Statewide Distribution of New Taxable Property and Increased Revenues



Source: Louisiana Tax Commission, Louisiana Economic Development.

The increase in taxable property translates directly to increases in funding for local government revenue and parish services. The \$16 billion-plus of new taxable property has produced \$282 million in new annual property tax revenue for local parishes to pay for public schools, law enforcement, libraries, levees, drainage, parks, and other local services.

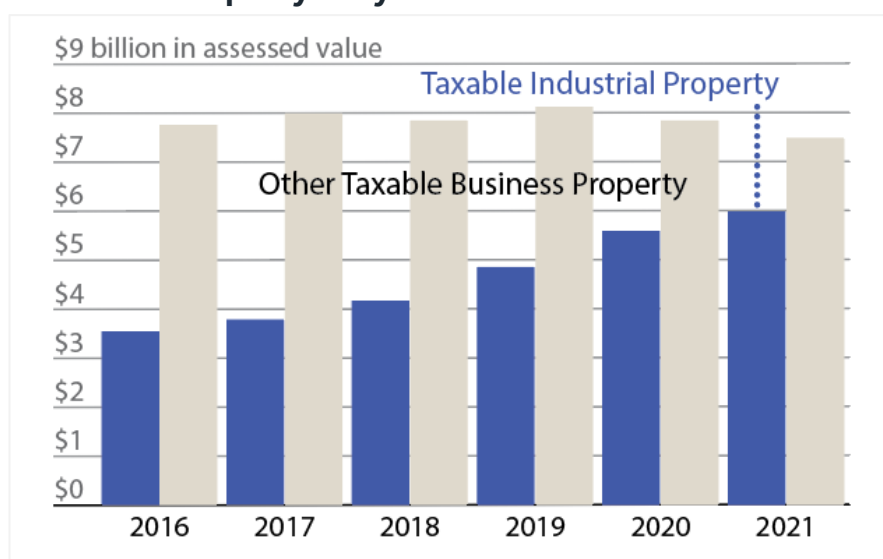
The increase in overall property tax revenue has translated into a drastic increase in funding for specific parish services statewide: An additional \$113 million for schools, \$55 million for law enforcement and \$115 million for other services (i.e., roads, drainage, levees, parks, and libraries) annually, according to IEEFA's analysis.¹⁶ For example, in West Baton Rouge Parish, annual funding for schools increased by \$10 million, representing 27% of the school board's entire budget. The increase was enough to hire 200 new teachers.

How much of the increase in taxable property is simply due to an overall increase in property values over the study period? Our analysis demonstrates that essentially all of the growth in taxable industrial property since 2016 can be attributed to ITEP reform. The value of industrial

¹⁶ See Appendix B for further detail.

manufacturing property (i.e., property eligible for ITEP exemptions) on the tax rolls increased by an average of 11.3% annually between 2016 and 2021 (see Appendix B). Excluding industrial manufacturing property value, statewide business property assessments¹⁷—including property owned by all businesses across the state, not just the small minority that are eligible for ITEP—remained unchanged from 2016 to 2021.

Figure 3: Taxable Industrial Property Grows Under ITEP Reform While Other Business Property Stays Flat



Source: Louisiana Tax Commission, Louisiana Economic Development.

Indeed, without ITEP reform and the return of previously-exempt industrial manufacturing property to the tax rolls, overall business property—the tax base driving property tax revenues, particularly for heavily industrial parishes—would have slightly declined in value.

As shown in the above figure, the growth in tax revenues from industrial property represents a substantial portion of overall business property tax collections.

¹⁷ To compare to the ITEP program, we excluded land and inventory from the category of business property for purposes of this comparison.

Drivers of Change

The ITEP reforms had several components, including eliminating exemptions for “miscellaneous capital additions,”¹⁸ reducing the value of exemptions from 100% of the initial capital investment to 80%, and giving local government entities approval power over ITEP applications. Which of these reforms has made the most significant contribution to the growth of local revenue?

Our analysis shows that the primary driver has been giving local governments more power over the decision-making process. With a local approval process in place, industrial manufacturers appear much less likely to pursue gratuitous exemptions. In the post-reform period, the balance of ITEP projects has shifted substantially from routine capital investments to building new facilities. Since 2016, new projects represent 83% of the capital investment for which firms sought exemptions. Before the reforms, they made up only 35%. The total number of ITEP applications fell from an average of 590 annually before the 2016 reforms to an annual average of 65.¹⁹ It appears that the mere requirement to publicly justify tax exemption proposals before local public bodies has led firms to dramatically reduce the number of ITEP exemptions they seek, especially for projects that are not related to investments in new facilities.

Two facilities in particular provide illustrative examples. From 1997 to 2016, Marathon Oil, a refinery in St. John the Baptist Parish, received 106 ITEP exemptions on a total of \$4.9 billion in capital expenditures. Under the post-reform rules, Marathon made one application for \$25 million, which was rejected by the parish school board. As old Marathon exemptions expired, the company did not seek new exemptions for continued capital investment. As a result, the fraction of the value of Marathon’s industrial property, exempt from taxation decreased from 86% in 2016 to 32% in 2021.

The ExxonMobil refinery in East Baton Rouge Parish received 237 ITEP exemptions on a total of \$4 billion in capital expenditures between 1997 and 2016. Post-reform, ExxonMobil made seven

¹⁸ As defined in footnote 2, above.

¹⁹ A large component of this change has to do with the elimination of “miscellaneous capital additions” as a category for ITEP exemptions. Companies may now receive exemptions for routine capital investments by consolidating them under a single application; many have chosen not to do so, presumably because it would be harder to justify the necessity for exemptions on these investments vs. for new capital investment.

applications; two were rejected, meaning that ExxonMobil received exemptions on a total of \$650 million in capital expenditures. ExxonMobil's fraction of industrial property that was exempt from taxation declined from 58% in 2016 to 35% in 2021.

Both Marathon Oil and Exxon Mobil reported strong profits in 2021, reaching levels not seen in almost a decade.²⁰ The ITEP reforms benefitted the local parishes whose tax revenues were at stake without resulting in financial losses for the companies.

Our analysis shows that the reduction of the maximum exemption to 80% has had a relatively small impact, generating \$9 million in non-inventory industrial property tax revenue growth from 2016 to 2021. Similarly, direct rejections of applications by local governing bodies also had a relatively small impact. Through 2021, only nine ITEP applications have been fully rejected by all relevant local governing bodies, with approximately 50 more receiving partial rejections.²¹ The local rejections have generated more than \$5.5 million in additional property tax revenue. Together, the 80% cap and complete or partial rejections account for only 5% of the increase in property tax revenue.

Impact on Capital Investment

ITEP reforms appear not to have had a negative impact on industrial capital investment statewide. In fact, overall capital investment in ITEP-eligible industrial property has increased by 50% during the post-reform period vs. the five years prior to reform. The number of startup applications has increased by 7%, and capital investments for approved startup projects have increased from \$34 billion during the 2012-16 period to \$99 billion during the 2017-21 period. In almost every case where an ITEP application received a partial or complete rejection, the project still proceeded.²²

²⁰ ExxonMobil. [2021 Annual Report](#). 2022.

²¹ Obtained via public records request to Louisiana Economic Development.

²² This includes, for example, a \$275 million investment by Marathon Petroleum in St. John the Baptist Parish and a \$155 million capital addition by Chalmette Refining in St. Bernard Parish, among many others. Of the 336 post-reform ITEP applications on record, there have been four instances of applications being withdrawn and 15 instances of contracts being canceled. Of these cancellations, nine were for projects that were approved and six were for projects that were partially or fully rejected by local governing bodies. Neither the cause of ITEP contract cancellation nor the current status of withdrawn or canceled projects are a matter of public record.



The primary impact of the reforms has been to suppress gratuitous exemptions.

It appears that the primary impact of the reforms has been to suppress gratuitous exemptions for capital outlays that require no incentives to proceed.

Although ITEP reform has already had a significant positive impact on local property tax revenue, the full impact of the reforms has yet to be fully realized because many projects that were approved before the 2016 reforms are still in effect through their renewal phase. If reforms had happened earlier, it is likely some projects either would not have been approved or would have been approved at a lower exemption value, resulting in even more property on the tax rolls today.

Moreover, the full effect of automatically removing industrial property from the tax rolls for decades cannot be captured by this analysis. For years, ITEP has deprived local parish governments of the right and responsibility to understand the financial circumstances of new industrial projects in their areas. As a result, the state's economic development apparatus and patchwork of parish systems of administration, assessment and taxation are largely unaccustomed to sharing this new responsibility. More work is required to ensure the proper implementation of the program by the various agencies and stakeholders to guarantee that all property is being valued and assessed.

Conclusion

The 2016 reforms to the Industrial Tax Exemption Program have resulted in significant new revenues to local governments in Louisiana, adding more than \$16 billion in industrial property to the tax rolls since reforms took effect. The changes have resulted in an additional annual \$113 million for schools, \$55 million for law enforcement and \$113 million for other parish services across the state, concentrated in the 15 parishes with the greatest levels of industrial manufacturing. Although the reforms included several components, the most significant

component in terms of revenue generation has been the requirement for firms to justify tax exemptions before local governments whose revenues will be directly affected.

The amount of industrial property brought onto the tax rolls as a result of the reforms is significant, given that the reforms have only been in place for five years. As old exemptions expire and new applications are considered, hundreds of millions more tax dollars could be added to local coffers. Despite the reforms, Louisiana remains home to at least \$130 billion in tax-exempt industrial property, resulting in annual lost revenues to local governing bodies of \$2.3 billion—eight times more than the amount generated from the reforms.

Although the reforms have generated substantial new revenue for parishes with a large manufacturing base, their future outlook is uncertain. The reforms were introduced via executive order and are vulnerable to evisceration or reversal by a future governor. Tens of millions of dollars for local and parish services are at stake. Can the people who are most affected and have the legal authority to make local budgetary decisions continue to exercise authority over this particular element of the tax base, or will that authority be preempted by an unaccountable state board that is far removed from the local budget process and the needs of local residents who are served by parish governments?

Appendix A: 2016 Reforms

In 2016, Louisiana Gov. John Bel Edwards issued two executive orders to reform the ITEP program. The executive orders cited several reasons for reform, including the fact that, unlike in most states, the ITEP program allowed tax exemptions “for maintenance capital, environmental capital upgrades, and new replacements to existing machinery with the result that the same components of a manufacturing plant remain exempt from the local property taxes for years after the expiration of the ten-year period for the contract.”²³ The governor also noted the lack of job creation or capital investment thresholds required to obtain the incentive.²⁴ The governor also highlighted the undemocratic nature of the program, noting that Louisiana was the only state to approve applications without formal input from local taxing bodies providing the exemption.²⁵

The first of the governor’s 2016 executive orders introduced the following changes to the ITEP program:²⁶

- The requirement that the relevant parish council or entity approve proposed tax exemptions that would directly affect their revenue;²⁷
- Requirements for demonstrating job creation or job retention; and
- The elimination of ITEP exemptions for “miscellaneous capital additions,” as well as for “maintenance capital, required environmental capital upgrades, and new replacements for existing machinery.”²⁸

²³ State of Louisiana. [Executive Order Number JBE 2016 – 26: Conditions for Participation in the Industrial Tax Exemption Program](#). June 24, 2016.

²⁴ *Ibid.*

²⁵ *The Advocate*. [No Strings Attached: Thanks to tax breaks, Cameron Parish government struggles amid industrial boom](#). December 17, 2017.

²⁶ *Ibid.*

²⁷ Under the new rules, each local taxing body makes decisions about its own share of the revenue at stake. For example, if a school board denies an exemption application while the parish council and sheriff approve it, the school board receives full property tax revenues from the project while the parish council and sheriff forgo their revenues. Under the maximum exemption, all taxing bodies receive a small portion of their revenues regardless of their decision to approve or deny an application.

²⁸ State of Louisiana, *op. cit.*

The second 2016 executive order reduced the percentage of taxable property that could be exempted.²⁹ The executive orders were reflected in new rules issued by the Board of Commerce and Industry, which specifically limited the value of the exemption to 80% (rather than 100%) of the value of the property for both the five-year initial contract and the renewal, except for “mega projects,” which could receive up to 93%.³⁰

²⁹ State of Louisiana. [Executive Order Number JBE 2016 – 73: Amended and Restated Conditions for Participation in the Industrial Tax Exemption Program](#). October 21, 2016.

³⁰ “Mega projects” are defined as projects that provide 500 direct jobs with at least \$20 million in net new payroll and at least \$100 million in capital expenditure. No project has been classified as a mega project under ITEP.

Appendix B: Methodology for Assessing Impact of Reforms

This appendix describes the methodology for evaluating the changes in parish property tax revenues from 2016 to 2021. We constructed a sample group of 206 companies (aggregated at the parish level)³¹ that includes the top 100 ITEP recipients, the top two recipients in each parish and other companies that in aggregate account for 95% of the value of ITEP-exempted property from 2016 to 2021.

Data on individual ITEP exemptions is obtained from Louisiana Economic Development's public reports.³² The data, combined with depreciation tables from the Louisiana Tax Commission, allows us to derive the total fair market value of an entity's non-inventory property that is exempt from property taxes in any given year (we exclude inventory because it is not part of the ITEP program). Additionally, data on tax assessments is obtained from individual parish tax records, as obtained from the Louisiana Tax Commission. From this information, we can establish the percentage of an entity's total non-inventory property that is taxed versus the tax-exempt percentage in any given year. Aggregating across companies, we obtain the total fair market value of industrial property in our sample group that is subject to taxation versus off the local tax rolls.

With these datasets, we are able to evaluate the change in tax receipts by parish from 2016 to 2021 for each of the companies in the sample group. Using individual parish millage rates, which are obtained from the Louisiana Tax Commission Annual Reports,³³ we are able to translate these totals into changes in budgets for specific public services, including law enforcement and schools. We are similarly able to determine the hypothetical amount of tax revenue that would have been available for local parish services in any given year had the ITEP exemptions not existed.

³¹ For example, all of Entergy's facilities within St. Charles Parish are aggregated as a single entity. We chose to aggregate facilities of a given corporation at the parish level, rather than the corporate level, because decisions at the parish level on industrial tax exemptions determine whether the parish will obtain any additional tax revenue from the corporation as a result of the reforms.

³² Louisiana Economic Development. [Public Reports](#).

³³ Louisiana Tax Commission. [Annual Reports](#).

We then extrapolated from the sample group, which accounts for 95% of exempted property, to estimate the full impact of the ITEP reforms on all of the exempted property in the state by multiplying by 1.05.

About the Author

Tom Sanzillo

Tom Sanzillo, director of financial analysis for IEEFA, is the author of numerous studies on the oil, gas, petrochemical and coal sectors in the U.S. and internationally, including company and credit analyses, facility development, oil and gas reserves, stock and commodity market analysis and public and private financial structures. Sanzillo has experience in public policy and has testified as an expert witness, taught energy industry finance and is quoted frequently in the media. He has 17 years of experience with the City and the State of New York in senior financial and policy management positions. As the first deputy comptroller for the State of New York Sanzillo oversaw the finances of 1,300 units of local government, the annual management of 44,000 government contracts, and over \$200 billion in state and local municipal bond programs as well as a \$156 billion global pension fund.

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