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Legislative BULLETIN

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"New Directions" for Economic Development

The Governor's "New Directions" initiative proposes a significant expansion and reorganization of the Department of Economic Development (DED).

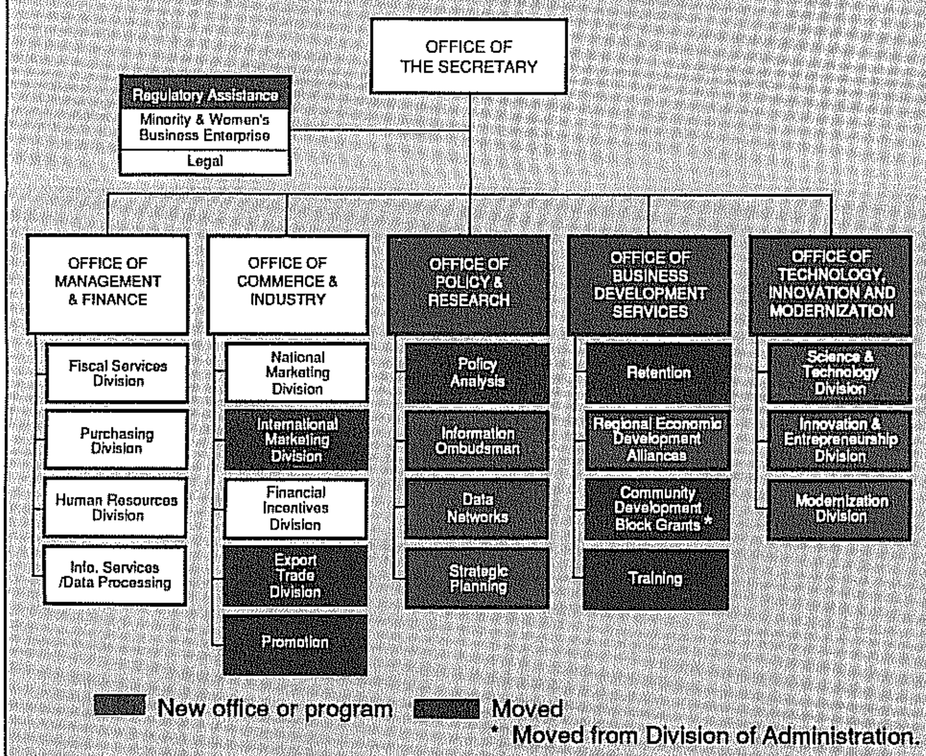
The DED reorganization was suggested by a consultant's study in 1990 and refined by the newly-appointed secretary. In addition, a package of proposals to restructure the state's financial assistance programs, based on another consultant's report, would compliment the proposed changes in DED.

The DED has been in a state of flux for many years. The former Department of Commerce and Industry (C&I) became an office in an expanded Department of Commerce in 1977, along with a new Office of Financial Institutions and other business-related agencies. In 1988, the department's name was changed to reflect its broader purpose.

HB 824 (Laborde) would create three new offices and merge the functions of the international office with the Office of Commerce and Industry. The proposed reorganization of the economic development functions in DED is shown in Figure 1.

The Governor's budget requests an added $4.8 million to fund the "New Directions" initiative, of which $2.1 million would be used to contract with new Regional Economic Development Alliances (REDAs) to provide local services. The plan would add 42 positions in DED.

FIGURE 1
Proposed DED Reorganization
(Direct Economic Development Functions Only)



SOURCE: Department of Economic Development.

In This Issue

Comment

PAR's 1977 study of the former Department of C&I voiced a number of concerns which remain relevant today. PAR found a need for:

- economic research to guide policy and program development;
- ongoing analysis of program effectiveness;
- better targeting of promotion efforts;
- an adequate information system to assist potential and existing firms;
- stronger community-based development efforts;
- greater emphasis on industry retention;
- an improved startup training program, and
- greater use of port and trade organization partnerships.

The "New Directions" plan addresses each of these concerns. Particularly promising is the planned emphasis on research and information, small business development and retention, and encouragement of private/public cooperation at the community level through the new REDA concept.

"New Directions" would signal a new commitment to economic development and provide the structure and staffing needed to beef up basic functions which have been neglected and undertake new ones.

Financing Business Development

A package of proposals would expand greatly the state's financial assistance programs for business development.

Throughout the 1980s, consultants noted the need for improved access to capital for small- and medium-sized firms and proposed various solutions. In 1988, the Economic Development Act created a development corporation, LEDEC, in DED to administer new or existing programs: small business innovative research matching grant, venture capital incentive, minority and women's business development, small business equity, and small business linked deposit programs.

LEDEC received $11 million its first year but only about $6 million a year in the last two years to fund the various matching, grant, loan and loan guarantee programs. LEDEC does not operate a revolving fund. Loan repayments revert to the general fund, requiring new appropriations to continue.

A 1990 consultant's report recommended actions reflected in the following package of proposals.

A bill to be offered as a substitute for HB 1806 (Alario) would create the Louisiana Economic Development Finance Corporation (LEDFC), an independent public authority under an 11-member board of directors including the DED secretary, state treasurer and nine members, appointed for overlapping terms and serving without compensation. The new corporation would assume the current functions of LEDEC and several new programs: a Seed Capital Program (matching investments); a Loan Insurance/Capital Access Program (pooled loan insurance for certain bank loans); a grant program for parish and municipal infrastructure development; and authority to invest in BIDCOs (see below). The LEDFC would be able to issue revenue bonds.

(LEDFC would be created as a separate authority to allow it greater flexibility in issuing bonds and in hiring expert staff outside civil service.)

HB 1755 (Alario) would dedicate a portion of the vendors' compensation to the LEDFC as revenue to back its revenue bonds.

(Until 1986, vendors were allowed to keep 1.5% of state sales tax collections to compensate them for collection costs. Then the rate was lowered to 1.1% until July 1992, with the difference dedicated to economic development. In 1988, the dedication was repealed and the money went to the general fund. This proposal would keep the rate at 1.1% and dedicate the amount that would otherwise revert to vendors--about $6 million a year--to back bonds to capitalize the corporation. An amendment will be offered to stop the dedication in 11 years, or sooner, if the bonds are retired earlier.)

SB 389 (Ewing) would create a revolving fund in the state treasury for economic development money received by LEDFC.

(This will allow LEDFC to assume the assets now invested by LEDEC. Otherwise, outstanding loan repayments would revert to the general fund.)

HB 1163 (Alario) would authorize the formation of Business and Industrial Development Corporations (BIDCOs) and set licensing and regulatory requirements under the Office of Financial Institutions. A BIDCO would be a private financial institution providing financing and management assistance to business firms.

(The BIDCO was designed to fill the gap between low-risk bank financing and high-risk venture capital financing. It would have considerable flexibility in using investments from banks, other private sources and the LEDFC to leverage additional investment and loans for small businesses. The investment decisions would be made in the private sector, not by the state.)

SB 26 (Ewing) would amend the constitutional prohibition against the donation, loan or pledge of public funds or credit to allow the use of public funds for programs of financial assistance, grants, loans or investments to promote education or economic development in the state. The creation of such programs would require a two-thirds vote of the Legislature or approval by two thirds of the members of a local governing body.

(The proposed exception for economic development would clear the way for the LEDFC to operate and issue revenue bonds. It is unclear how the broad exception for promoting "education" might be used.)

Comment

The proposed development authority was designed to allow the state to use progressive market-driven economic development finance programs. The new BIDCO and capital access programs would place the investment decisionmaking in the private sector. Public funds would be used primarily to encourage much larger private investments. The consultant's plan calls for an initial capitalization of $50 million to establish the revolving fund.

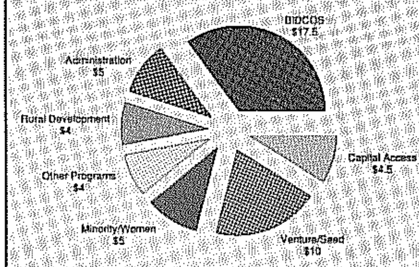
Figure 2 indicates how the consultant suggests the initial $50 million in capital might be used and his estimate of the total capital investment which would result--$487.5 million.

The corporation is designed to avoid the political involvement which has led to questionable development efforts in the past, such as appropriations for direct loans to specific firms. The LEDFC would be subject to legislative oversight, reporting and annual audit requirements.

An additional control would be exacted by the business community which would be giving up its vendors' compensation to underwrite the LEDFC operation. In fact, the programs would not be financed directly by tax money but rather, by businesses.

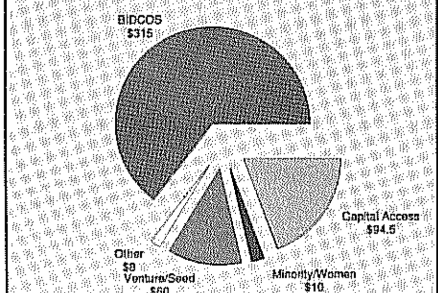
FIGURE 2

Use of Funds
(In Millions)



NOTE: Suggested by Solaka & Associates.

Total Investment Available
to Private Sector (In Millions)



NOTE: Estimated by Solaka & Associates.

Inventory Tax Relief

Louisiana is one of only 12 states that levy a property tax on all business inventories, thereby placing it at a competitive disadvantage. A number of bills address this problem.

As shown in Table 1, most of the proposals to grant inventory tax relief would cover all inventories of manufacturers, wholesalers and retailers, except natural resources and raw materials.

Two basic approaches are proposed. One would exempt inventory from property taxation by constitutional amendment, either with or without state reimbursement of local tax losses. The second would provide a statutory credit against state taxes for local taxes paid on inventories.

Presently, business inventories make up about 9% of the total statewide taxable assessed values. A full exemption would reduce local property tax revenues by roughly $100 million. Data on current inventories is inadequate to determine the impact of various proposed exceptions, such as for raw materials. These variations would bring the total impact somewhere below $100 million.

Comment

Louisiana was ranked 49th among 50 states in providing incentives for business growth in the 1989 Grant Thornton study of manufacturing climate. Inventory taxation was one of the items used in the measure.

Many states have exempted inventories from taxation for competitive reasons, and also because such taxes are difficult to administer, distort business operations and create inequities among different types of firms. In 1990, 36 states did not levy property taxes on business inventories and two others exempted manufacturers' inventories. Louisiana's taxation of inventories is seen as a disincentive for new business locating in the state, particularly for warehousing and distribution facilities.

Last year voters approved a constitutional amendment allowing localities to grant inventory exemptions to distributors on a case-by-case basis. This provision promises to raise serious questions of equity if it is ever used extensively.

Removing taxes from inventory generally is considered beneficial to business and job development. The problem has been how to avoid hurting local government. Several of the

TABLE 1
Inventory Tax Exemption and Tax Credit Proposals

Bills	Applies to	How Granted	Source of Replacement Revenue or Credit	Beginning
EXEMPTION				
HB 124 (St. Raymond)	Goods held for sale or resale, except natural resources or raw materials	Constitutional exemption	None	1992
HB 147 (LeBlanc)	Goods held for sale or resale, except natural resources or raw materials	Constitutional exemption	Inventory Tax Reduction Fund to receive 40% of money going to mineral trust fund; investment earnings go to reimburse local tax bodies	1992
SB 47 (Bagert)	Manufacturers' finished goods Wholesale or retail goods, except raw materials	Constitutional exemption Legislature authorized to exempt all or part by general law	None None specified	1992 Requires future legislation
HB 28 (Hebert)	Goods for sale or resale, except natural resources or raw materials	Constitutional exemption	State required to reimburse local bodies from sales or other state taxes as provided by law	1992
HB 1236 (Armstrong)	(Companion bill to HB 28 above)		Dedicate lottery proceeds to reimburse local bodies for tax losses	July 1, 1993
TAX CREDIT				
HB 1586 (Alario) HB 1029 (Theriot) SB 373 (Ensminger) SB 520 (Bagert)	Inventory held by manufacturers, distributors and retailers	Credit against state taxes for inventory tax paid or refund if credit is larger than tax liability	Personal or corporate income tax or corporation franchise tax	FY 1992-93 Five-year phase in (20%/year)
SB 812 (McPherson)	Same as above, except retail inventory with a fair market value over $250,000; raw material is excluded	Same as above	Same as above	Same as above

current exemption proposals would have the local bodies absorb the tax loss. Others would use state taxes, lottery proceeds or some of the mineral trust fund money to reimburse local tax bodies. Localities still could suffer under two of reimbursement plans if dedicated revenues were insufficient to cover losses.

The five tax credit bills offer a realistic approach to providing general relief for inventory taxpayers while allowing local tax bodies to continue collecting their revenues. The credits would reduce state revenues, but gradually as the credits were phased in over five years. The taxpayer would receive a refund if his property taxes on inventories exceeded his state tax liabilities. One bill (SB 812) would exclude raw materials and retail inventories worth over $250,000. These exclusions would reduce the cost of the state tax credit but would create a questionable discrimination against large retailers.

The purpose of providing inventory tax relief is to spur economic growth and create new jobs. The resulting growth in economic activity would increase state tax collections to offset the credits provided.

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