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Filling the Gap or Tipping the Scale?

An Analysis of Louisiana's Use of Financial Incentives to Spur Economic Development

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EXECUTIVE SUMMARY

A growing trend in corporate-government relations is to offer state-funded cash incentive payments to private businesses. Economic development experts contend that incentives are essential in certain situations to gain a competitive edge that will lure businesses with large-scale projects promising significant job growth and competitive salaries. In return for these one-time incentive awards, states expect increased tax revenue resulting from job creation or retention.

The return on investment to the state is used to justify the up-front cost of subsidizing portions of businesses' relocation or expansion needs. This holds true only if job creation promises are met. Combined with tax credits and job training, these incentive payments from states can mean millions, and sometimes billions, of dollars to business. Proponents contend that discretionary cash incentives are necessary tools for state negotiators to have at their disposal. Critics question whether the availability of incentives truly influences business decisions, or whether offering cash payments amounts to little more than corporate welfare.

Experts suggest that factors such as the availability and quality of the labor force, quality of life and the cost of doing business are the true, primary drivers of business decisions, not financial incentives. But, in situations where these factors are similar, offering incentives may win the deal. Incentive availability may also afford states the opportunity to compete, as some companies restrict their negotiations to a limited number of locations with available incentives. Financial incentives alone cannot compensate for the disparity in some competitive situations, but they are one tool among many, appropriate for leveraging competitive advantage.

State economic development officials recognize that improving Louisiana's competitive landscape and its external perception is critical to attracting and retaining business. The Louisiana Department of Economic Development (LED) is working to improve the state's competitive edge through new efforts in marketing the positive qualities of Louisiana, dispelling confusion about the lingering effects of Hurricane Katrina and creating a new turnkey workforce training initiative. These efforts now comprise the LED's top priority, in contrast to the historical sole priority of cultivating new and existing business, with little attention to how the "Louisiana product" appeared to outside entities.

Louisiana has several financial incentive funds administered directly by LED. These funds are used to make discretionary incentive payments, which can be provided as direct cash payments or through the purchase of things such as public infrastructure, facilities, land and equipment. Two of these funds are distinguished by the fact that they allow goods and services to be purchased for private entities, which can maintain ownership. A third performance-based financial incentive

program administered by LED, the Economic Development Award Program (EDAP), is similar but payments are restricted to public infrastructure improvements.

This study examines the Mega-Project Development Fund and Rapid Response Fund, which were created in 2007 and 2005, respectively. The mega-project fund was initially designed to attract large-scale projects requiring at least $100 million of private investment and yielding hundreds of new jobs. In contrast, the Rapid Response Fund was created to offer smaller incentives for more generalized purposes in order to secure negotiating superiority in the final stages of the most competitive situations where a relatively small state investment could make the difference in winning a project.

The combined balance for both these funds at the beginning of FY 09 was in excess of $400 million. In light of the severity of projected budget shortfalls and within the context of Louisiana's political culture – one that is often guided more by politically self-serving deals, rather than a rational approach that supports a strategic path to the future – the expenditure of these discretionary funds should be undertaken with only the highest degree of scrutiny.

Does the use of financial incentives truly yield an increase in economic development and business expansion as proponents suggest? What type of funding mechanism should Louisiana provide for economic development deals? Does Louisiana maintain an appropriate balance of accountability, confidentiality and transparency sufficient to build public confidence without detracting from the state's ability to negotiate competitively?

On the tail end of a flurry of deals struck with cash and other financial incentive payments, this analysis explores these questions and recommends a new approach to safeguarding the public trust while providing and monitoring state-funded cash incentive payments to private businesses. These minimum standards should guide the use of all corporate incentive programs:

- Incentive fund projects have adequate goals and measurable outcomes on the front end;
- Measurable growth and a quantifiable return on investment are identified for each project on the back end;
- Sufficient oversight and accountability are exercised; and
- Appropriate levels of transparency and confidentiality exist.

This study reveals several significant shortcomings in the transparency under which the funds operate. For example, biannual reports to the Legislature are only required to include project expenditure data for the two funds. Some supplemental data have also been provided in the reports, but these only include front-end estimates of proposed job creation for some of the projects, and there are no back-end data on actual job creation to compare against the initial estimates. Thus, the required reports are cursory, and there is very little additional information about each project on the LED Web site.

Although project-specific performance information is collected internally by LED contract monitors, stakeholders are hard-pressed to monitor the economic impact of these investments. Information about individual projects is not publicly available nor is it compiled to enable tracking over time, making it difficult for the public to gauge the progress companies are making toward their proposed targets.

The publicly available data reveal little about the overall economic impact of each taxpayer investment as they fail to consider whether the job commitments are being delivered on schedule, what the tax benefit has been to state and local governments, how many indirect jobs have been created or what the salary and benefit levels are. What can be gleaned from the publicly reported data is little more than a simple measure of the cost per promised job.

More than $33 million has been spent from the Rapid Response Fund to yield an estimated 3,821 new jobs at a rate of $8,647 per job. In terms of jobs committed versus funding allocated, the Rapid Response Fund cost per job is almost $9,708 per job. For the Mega-Project Development Fund, the simple rate of allocated incentive dollars per committed job is more than $100,000. As those projects were not announced until late in FY 09, it is too soon to compare actual expenditures to actual job creation. Two of the five mega-project fund agreements were struck with federal entities, which do not allow a job-creation commitment, although they are expected to lead to new and retained jobs.

It is important to note that these job-cost estimates should only be used as a starting point from which to evaluate the return on this particular type of state investment. The number of jobs directly created is but a piece of a complex exchange of resources between the public and private sector. The simple measures are highlighted here to emphasize the limited usefulness of currently available information on the incentive fund projects.

Louisiana should further define statutory guidelines for the Rapid Response Fund, provide more precise measurement and reporting of outcomes for both funds, and make all relevant information easily accessible to the public. While in practice some of the recommended spending accountability mechanisms are being exercised by the current administration, the processes and requirements need to be set in statute to ensure they are not left up to the discretion and preference of public officials.

Specifically, PAR recommends:

Recommendation #1: Establish statutory requirements to guide future Rapid Response Fund project agreements.

The vague nature of the existing statutory language allows for considerable discretion in deciding which projects merit financial incentive payments. Rapid Response Fund expenditures do not require legislative approval, thus they should be constrained by reasonable, statutory expectations of performance and accountability. The following minimum standards should be established to reduce the potential for misspending:

- A minimum number of direct, full-time, created or retained jobs;
- A specified time-frame by which these job targets are to be achieved;
- Specific salary expectations for job commitments, with emphasis on wage levels in excess of federal poverty;
- Reporting requirements that indicate health insurance benefits, salary and wage levels, and indirect job estimates;
- A minimum level of capital investment to be made by the receiving entity;
- A specified process by which all targets are to be validated; and,
- Required recoupment procedures for non-performance.

Without statutory requirements, state officials in recent years seem to have exercised a fair amount of diligence in establishing clear expectations within the Rapid Response Fund agreements. But, this has not always been the case and there is no requirement that current practice continue in the future.

Recommendation #2: Expand the information provided in the biannual reports to the Legislature to include economic impact and performance information that enables the public to compare what was promised to what was delivered for each project funded by the Mega-Project Development Fund or the Rapid Response Fund.

Biannual reports to the Legislature about incentive fund expenditures are required, but the level of detail is insufficient to provide any degree of understanding regarding the extent to which a return on investment is occurring. Only program expenditures are required to be reported. No matter how robust the parameters for providing the incentive funding in the first place, if there is no requirement for reporting on outcomes, there is no public accountability to document success or to drive the execution of claw back provisions. The public should be able to track the outcomes of each cash incentive expenditure with periodic updates that compare job targets to job creation and retention achievements. Similar comparative data also should be provided for other commitments such as payroll targets and capital investment targets.

Recommendation #3: Publish on the Department of Economic Development Web site certain general details about each pending mega-project deal, including at a minimum, the parish(es) being considered for location and the nature of the business to be subsidized.

The longstanding practice in Louisiana, and elsewhere, is not to release any details of pending projects to the public. State negotiators assert that releasing information about these negotiations would jeopardize the state's chances of winning deals, because it would weaken the competitive edge. Or worse, additional openness could prevent would-be business prospects from even considering Louisiana.

Despite this risk, a better balance between openness and competitiveness should be struck. The public should be kept informed of the basic details of potential projects as soon as they are considered viable recipients of financial incentive funding. Knowing the details of a deal after the negotiations are final does not afford the public the opportunity to become involved prior to legislative approval being granted. A running list of potential business deals, along with the nature and proposed location of each project, should be provided on the Department of Economic Development Web site to remove the air of secrecy that creates a suspicion of impropriety and stifles debate. The use of code names to substitute for actual business names is acceptable.

Recommendation #4: Publish on the Department of Economic Development Web site copies of all legal agreements, required reports and economic analyses guiding and informing Mega-Project Development Fund and Rapid Response Fund expenditures for each project.

Outcome information relative to the state's incentive payments is not readily available, despite more than $30 million in expenditures ostensibly tied to measurable outcomes. Some performance information, such as third-party economic impact analyses and return-on-investment analyses, for some of the projects funded by financial incentives in Louisiana, is available through a public records request. But, that information, in addition to the performance data provided by legislative reports, should be made available online for quick and easy access by any member of the public who is concerned about the accountability for and effectiveness of corporate financial incentive payments. In addition, all contract amendments should be published on the Web site as they are made. Annual/quarterly progress reports, project budgets, cost reports, payroll documentation and other similar documents should also be posted.

Contracts and cooperative endeavor agreements are used to outline each project's performance targets, and economic impact analyses (conducted in-house or by third parties) detail the justification for each project. This information should be easily accessible to ensure that early promises and expectations are not forgotten or overlooked as new deals take the spotlight. The taxpayer investment made with financial incentives should be able to be easily and rigorously monitored by taxpayers.

Providing this level of accessibility to performance information would not only satisfy public calls for greater transparency in public spending, but would also encourage maximum due diligence on the part of economic development professionals who are charged with ensuring fund recipients deliver as promised. All parties to these contracts should manage these deals under an evaluation system that is documented in public view. The risk for misspending is too great to handle them otherwise.

Conclusion

Louisiana's use of financial incentives is consistent with practices in other states, but lacks some of the oversight and accountability mechanisms in line with neighboring states that are leaders in these areas. At a time when all state resources are scarce, the public must be secure that state investments will yield something tangible in the form of sustainable jobs and other measurable economic benefits. This could be accomplished by further defining statutory guidelines for the Rapid Response Fund, providing more precise measurement and reporting of outcomes for both funds, and making all relevant information easily accessible to the public.

If Louisiana can truly use these incentives to create more economic opportunity, it will be money well spent. Early results are promising that Louisiana's use of incentive funds will yield the hoped-for outcomes of sustainable jobs, a more dynamic economy and the credibility it needs to attract new investment without the lure of cash subsidies. However, to boost public confidence and minimize the risk of waste, the state's use of cash and other financial incentives should be more carefully and publicly documented.

Introduction

Financial incentives are widely used by states as an economic development tool. States offer cash payments and other financial incentives in the form of performance-based grants as a way to tip the scale in competitive situations with other states. Combined with tax credits and job training programs, incentive payments can mean millions, and sometimes billions, of dollars to businesses relocating or expanding into a state. Unlike most tax-based incentives, which are non-discretionary in nature and are available to all qualified candidates, discretionary financial incentives are offered to each recipient individually and require the negotiation of individually tailored deals. They typically provide one-time resources to mitigate the upfront costs for businesses that are relocating or expanding.

Similar to that for tax incentives, the rationale for a state providing financial incentives is that the state's initial capital investment will be offset over time by the tax revenue generated from newly created or retained jobs. The upfront expenditure is viewed as a long-term investment with tax revenue payoff – but only if the jobs come. Proponents contend that the incentives are necessary tools for state negotiators to have at their disposal. Further, proponents assert that, absent these incentives, states are less competitive in certain situations. Critics question the extent to which incentives truly influence business decisions, and whether offering incentives amounts to little more than corporate welfare.

Louisiana has several financial incentive funds administered directly by the Department of Economic Development (LED). These funds are used to make discretionary incentive payments, which can be provided as direct cash payments or through the purchase of things such as public infrastructure, facilities, land and equipment. This report studies the state's use of two of these funds, which are distinguished by the fact that they allow goods and services to be purchased for private entities. A third performance-based financial incentive program administered by LED, the Economic Development Award Program (EDAP), is similar but payments are restricted to public infrastructure improvements. Table 1 lists the various discretionary and non-discretionary economic development incentives and programs offered by LED.

The Rapid Response Fund and Mega-Project Development Fund had a combined balance in excess of $400 million at the beginning of FY 09. Most of this amount was tied up in the mega-project fund and was slated for projects being negotiated confidentially. Some policymakers questioned the merits of keeping such a large amount of money on reserve for pending (yet undisclosed) projects while the larger state budget shortfall forced cutbacks in other critical areas of state government, such as higher education and health care.

Does the use of these incentives truly yield an increase in economic development and business expansion as proponents suggest, or are these incentives simply an economic benefit to large corporations with little return on investment to the state? Does Louisiana maintain an appropriate balance of accountability, confidentiality and transparency sufficient to satisfy needed public confidence without detracting from the state's ability to negotiate competitively? These questions point to the overarching concern of whether Louisiana's use of corporate financial incentive funds is justifiable and appropriate within the context of its political culture – one that is often guided more by politically self-serving deals, rather than a rational approach that supports a strategic path to the future.

To address this fundamental concern, the public trust should be protected by these minimum standards to guide the use of all corporate financial incentive programs:

- Incentive fund projects have adequate goals and measurable outcomes on the front end;
- Measurable growth and a quantifiable return on investment are identified for each project on the back end;
- Sufficient oversight and accountability are exercised; and
- Appropriate levels of transparency and confidentiality exist.

The extent to which these and other factors exist for Louisiana's two major incentive fund mechanisms is explored in this report.

Table 1. Louisiana Economic Development Incentives and Programs

Incentive/Program	Purpose
Angel Investor Tax Credit[2]	Provides up to a 50% tax credit for individual investors who invest in early stage, wealth-creating businesses.
BIDCO Investment Program[6]	Provides a match or co-investment of $1 for every $2 of private capital in certified BIDCOs, which are state-chartered, non-depository alternative financing sources for small businesses.
Bonding Assistance Program[4]	Aids certified small and emerging businesses in reaching the bonding capacity required for specific projects.
Contract Loan Program[4]	Provides a loan participation and guarantee to a bank for government contract loans.
Digital Interactive Tax Credit	Provides a 25% tax credit for qualified production expenditures for digital interactive media productions in Louisiana, as well as an additional 10% tax credit for payroll expenditures for Louisiana residents.
Economic Development Award Program[1, 2]	Provides funding for site and/or infrastructure improvements for projects creating new jobs.
Enterprise Zone[2]	Provides a $2,500 tax credit for each certified net new job created, 4% sales/use tax rebate on capital expenditures or income and franchise tax credits up to 1.5% of investment.
Hudson Initiative	Provides small businesses with greater potential for access to state procurement and public contract opportunities.
Industrial Tax Exemption	Provides property tax abatement for up to 10 years on materials used in new manufacturing.
Live Performance Tax Credit	Provides a tax credit up to 25% on qualified expenditures on live performance productions or infrastructure.
Louisiana Contractors Accreditation Institute[5]	Provides a management training course designed to support the state's growing construction industry.
Louisiana FastStart[2, 3]	Provides workforce recruitment, screening and training to new and expanding Louisiana companies at no cost.
Louisiana Seed Capital Program[6]	Provides matching or co-investment funds that, with other capital provided by a Louisiana-based fund, are used exclusively to assist Louisiana small businesses move out of the theoretical stage of development and into commercial production.
Mentor-Protégé Tax Credit[3]	Rewards Louisiana-based contractors who provide competitive technical assistance to protégé firms.
Micro Loan Program[4]	Provides loan guarantees and participations to banks for micro-business loans, ranging from $5,000 to $50,000.
Microenterprise Development Program[4, 5]	Provides self-employment training for entrepreneurs.
Minority Venture Capital Match Program[6]	Provides for a match investment in a Louisiana business with a qualified minority venture capital fund.
Motion Picture Industry Development Tax Credit	A transferable tax credit of 30% for motion picture production and an additional 5% for Louisiana labor.
Quality Jobs	Provides up to 6% rebate on annual payroll expenses and 4% sales/use tax rebate on capital expenditures for projects creating new jobs.
Research & Development Tax Credit	Provides a tax credit to existing businesses with operating facilities in Louisiana to establish or continue research and development activities within the state.
Restoration Tax Abatement	Provides five-year property tax abatement for the rehabilitation of an existing structure.
Small and Emerging Business Development Program[4, 5]	Assists Louisiana's small businesses with entrepreneurial training, legal needs, marketing, business planning, computer skills and accounting.
Small Business Loan Program[4]	Provides loan guarantees and participations to banks in order to facilitate capital accessibility for businesses.
Sound Recording Investor Tax Credit	Provides a tax credit up to 25% of production or infrastructure development.
Specialty BIDCO Investment Program[6]	Provides a dollar-to-dollar match or co-investment in certified specialty BIDCOs, which are state-chartered, non-depository alternative financing sources for small businesses.
Technology Commercialization Credit and Jobs Program[2]	Provides refundable tax credits for companies that invest in the commercialization of Louisiana technology and create new jobs.
Venture Capital Co-Investment Program[6]	Provides a co-investment in a Louisiana business of up to 1/4 of the investment, but no more than $500,000 with any qualified venture capital fund.
Venture Capital Match Program[6]	Provides a match investment in a Louisiana business with any qualified venture capital fund.

SOURCE: http://www.ledlouisiana.com/opportunities

[1]*Performance-Based*
[2]*Job Creation*
[3]*Workforce Assistance*
[4]*Financial Assistance*
[5]*Training and Assistance*
[6]*Capital Investment*

Budgeting for Incentives

Payments for cash and other financial incentives to businesses can be funded in one of three ways: through the regular appropriation process; through a designated incentive funding mechanism with a dedicated means of financing; or through a combined approach where variable appropriations are directed for use in an incentive fund program. Twenty-two states, including Louisiana, have created formal incentive fund programs as the mechanism for distribution of financial incentives. Louisiana's Rapid Response Fund and Mega-Project Development Fund, or mega-project fund, maintain a cash balance on reserve to bolster the state's negotiating advantage by providing money at-the-ready. Establishing Louisiana's formal incentive fund mechanism was thought to address the concern of business leaders that the unpredictability of the state's regular appropriation process is a deterrent to businesses. To improve Louisiana's standing as a viable contender for big relocation or expansion deals, the formalized funds were established – albeit a few years apart and with different overall requirements.

Financial incentive funds generally are grouped into two categories: deal-closing funds and large-project funds. The distinction between the types of funds is not clear, however, when their characteristics are closely examined. Funds that either state officials or economic development experts commonly consider to be large-project funds range in size from as little as $1.2 million to hundreds of millions of dollars. Similarly, funds commonly considered to be deal-closing funds can span a range of $2 million to $295 million. The range of purposes is equally varied and interchangeable.

The "size" of these funds is difficult to pinpoint from year to year and the source of funds is varied as well. South Carolina uses gasoline taxes to support its incentive funds; Mississippi and Alabama use bonds; Georgia uses Tobacco Settlement revenue. Table 2 shows that 22 states, including Louisiana and 11 other Southern states, have one or both types of funds in their economic development toolkit. Of the eight states that have both types of funds, six are in the South. The establishment of dual incentive funds may be due to Southern states grappling with one another for any competitive advantage they can muster.

In the nationwide context, there is no clear line between what each type of fund is set up to accomplish and how large each should be. Louisiana's Rapid Response Fund is a statutory dedication with a minimum balance of $10 million at the start of each fiscal year; the mega-project fund has no minimum balance. If either of the incentive funds goes unused in a given fiscal year, any remaining amounts are carried forward from one fiscal year to the next, and any interest earned is kept within the fund. It is important to note that the primary source of funding for Louisiana's two funds has been excess general fund revenue that would have been designated as official surplus dollars had it not been directed into these funds. Expenditure of surplus dollars is constitutionally restricted to six uses that do not include cash incentive payments to private businesses.

Distinction of Purpose

When comparing incentive funds by their intended purpose, the categories are no more distinct. Table 2 lists the funds and their programmatic purposes. Although conceptually there is a purpose distinction between large-project funds and deal-closing funds, in reality there is significant crossover. Large-project funds are supposed to be targeted for big-ticket items such as infrastructure improvements, building improvements, utility infrastructure, site development, equipment costs, relocation expenses or a combination of these elements. However, Table 2 shows that these purposes are not exclusive to what are considered large-project funds.

Louisiana's funds differ in terms of the size of the deals, the length of negotiations and the expected returns. Louisiana's mega-project fund was initially designed to attract large-scale projects that might require significant infrastructure improvements that would be subsidized with tens if not hundreds of millions of state dollars. In contrast, the Rapid Response Fund was designed to provide smaller and more flexible incentives to secure negotiating superiority in the final stages of the most competitive situations where a few million dollars or even less could make the difference in winning a project. Mega-project fund negotiations take place over several months and are quite detailed in terms of reaching a clear balance between what the state will offer and the financial return. The Rapid Response Fund is designed to move much faster through the process, not because negotiation is less

Table 2. Statutory Purposes of State Financial Incentive Funds in 22 States

State	Purpose	Large-project	Deal-closing
Alabama Capital Investment Trust Fund	Capital investment for economic development projects	✓	
Alabama Site Preparation Grants	Site development	✓	
Arkansas Quick Action Closing Fund	General economic development opportunities		✓
Arkansas Super Project Fund	General economic development	✓	
Colorado Economic Development Fund	Existing business expansion and new business relocation	✓	
Delaware Strategic Fund	Plant and equipment costs	✓	
Florida Innovation Incentive Fund	General economic development	✓	
Florida Quick Action Closing Fund	Start-up costs		✓
Georgia Economic Development Growth and Expansion [EDGE] Fund	Site development, infrastructure and machinery and equipment costs		✓
Georgia Regional Economic Business Assistance [REBA] Fund	Public infrastructure improvements	✓	
Illinois Business Development Public Infrastructure Program	Public infrastructure projects that lead directly to private sector expansion/retention	✓	
Indiana Industrial Development Grants	Off-site infrastructure improvements	✓	
Louisiana Mega-Project Development Fund	Infrastructure/capital improvement for new or expanding business	✓	
Louisiana Rapid Response Fund	Use at governor discretion		✓
Maryland Economic Development Opportunities Program Fund	General economic development opportunities		✓
Mississippi ACE Fund	General economic development opportunities		✓
Mississippi Economic Development Highway Fund	Road improvements that support job creation	✓	
New Mexico Invest New Mexico	Private equity investment program	✓	
New York Economic Development Fund	Land acquisition, construction and infrastructure improvements	✓	
North Carolina Industrial Development Fund	Infrastructure improvements and construction and equipment	✓	
North Carolina One North Carolina Fund	Buildings, equipment and infrastructure for expanding business		✓
Ohio Business Development Grant Fund	Capital expenditures	✓	
Ohio Road Work Development Grant Fund	Road projects that promote job creation	✓	
Pennsylvania Infrastructure Development Program	Publicly owned infrastructure improvements	✓	
Pennsylvania Opportunity Grant Fund	Infrastructure, working capital and job training		✓
South Carolina Economic Development Set Aside Program	Road or site improvements needed by new or expanding business	✓	
Tennessee Industrial Infrastructure Program	Water, wastewater, transportation infrastructure improvements	✓	
Texas Enterprise Fund	Infrastructure and community development		✓
Utah Industrial Assistance Fund	Relocation and expansion costs	✓	
Virginia Governor's Opportunity Fund	Infrastructure improvements, transportation access, site development and construction costs		✓
Virginia Industrial Road/Rail Access Program	Access roads or connecting rail lines to new and expanding business	✓	
Virginia Investment Partnership Grant	Generalized job creation	✓	
West Virginia Sunny Day Fund	Expansion and relocation costs		✓

Source: Texas Legislative Council and independent state statute review.

stringent, but because the smaller investment is targeted to more finite needs that can be offered quickly, with less complexity. Lastly, the mega-project fund is targeted solely for the purpose of creating of new jobs, whereas rapid response can be utilized for either job creation or retention efforts.

States that offer large-project financial incentives generally require that a threshold for a return on investment (ROI) be met in order to receive the payment. Current practices in many states dictate that this threshold be tied to the promise of a certain number of new jobs, certain type of job, payroll levels that a company must maintain over time or a minimum level of capital investment by the recipient company. If companies receiving incentives fail to meet these requirements, provisions can require that states recoup cash payments through claw back provisions as part of the brokered deal or renegotiate the terms of an agreement.

Rapid Response Fund - The Deal Closer

Building on previous efforts to offer deal-closing incentives, Louisiana established the Rapid Response Fund in 2005 (Act 398) as a statutory dedication of $10 million, administered by LED. Earlier iterations of the deal-closing fund were created outside of statutory dedications, and were not imbedded in state law. Rapid response is Louisiana's version of a deal-closing fund and is specifically designed to provide an immediately accessible pool of financial resources to use as bargaining power in the midst of negotiations for those businesses considering locating in or expanding to Louisiana. Including Louisiana, 11 states have deal-closing funds. Eight of these are Southern states (see Table 2).

Louisiana's fund was created primarily to boost the state's bargaining power with business interests. With deal-closing funds available in neighboring states, proponents believed that creating such a fund would improve Louisiana's competiveness for economic development projects. Earlier versions of this fund required legislative approval for each potential project, which was viewed as an added bureaucratic step limiting state negotiators' ability to respond to counteroffers made by competitors. The current construct allows the governor and secretary of LED to offer incentives absent prior legislative approval. Providing this flexibility was thought to make Louisiana more attuned to the needs of business while aligning program triggers with those found in other states.

Deals are negotiated by LED officials and utilize cooperative endeavor agreements (CEA) to establish the usual contractual language that specifies responsibilities of the parties and critical elements for performance expectations (i.e., job creation targets). Specific recoupment or "claw back" terms for failure to meet agreed-upon performance targets are included and are unique for each project.

The $10 million fund was supplemented by $42 million in FY 09 (Act 513 of 2008) with a one-time legislative appropriation from the FY 08 state budget surplus before it was designated as official surplus, which would have prevented it from being used for this purpose. Combined with the previous year's balance, the total available for FY 09 was in excess of $47 million. The FY 10 budget appropriated an additional $27 million to the fund. In other states that have what are commonly considered deal-closing funds, the funds generally hold balances between $20 million and $30 million.

Since the Rapid Response Fund was statutorily created in 2005 (an earlier iteration of the deal-closing fund had existed since 2002), about $33 million has been spent on 17 projects, including several recovery projects related to hurricanes Katrina and Rita approved by the previous administration. These projects received more than $15 million but yielded no documented new jobs (see Table 3). Although the LED is required to submit legislative reports detailing expenditures, there is no current requirement for any reporting on actual jobs created, total payroll or any other economic impact. Other Southern states, such as Texas and North Carolina, do require reporting at this level of detail and at greater frequency.

In addition to the required expenditure information, some supplemental data have also been provided in the most recent reports by LED to the Legislature. Still, they only include front-end estimates of proposed job creation for some of the projects, and there are no back-end data on actual job creation to compare against the initial estimates. Further, they do not provide this information over time, making it difficult to gauge the progress companies are making toward their proposed targets.

Table 3. Louisiana Rapid Response Fund Expenditures

	Project	Total Project Allocation	Total Project Expenditures	Total New Jobs Commitment	Total New Jobs Actually Documented	State Expenditure per Job Created
FY 05	BST Manufacturing	$ 400,000	$ 400,000	60	105	$3,810
	Union Tank Car	$ 1,000,000	$ 881,761	850	416	$2,120
	Greater Ouachita Port Commission	$ 323,000	$ 323,323	0	0	
	Answer Group	$ 700,000	$ 700,000	700	1,851	$378
	Steelscape	$ 1,300,000	$ 1,300,000	0	120	$10,833
	Total for FY 05	$ 3,723,000	$ 3,605,084	1,610	2,492	$1,447
FY 06	Bridge Loan Program	$ 10,000,000	$10,000,000	0	0	
	Total for FY 06	$ 10,000,000	$10,000,000	0	0	
FY 07	NuComm International	$ 1,000,000	$ 1,000,000	1,000	376	$2,660
	URS*	$ 2,250,000	$ 2,250,000	0	0	
	Entergy*	$ 750,000	$ 750,000	0	0	
	Phelps Dunbar*	$ 380,000	$ 380,000	0	0	
	Business Recovery Loan and Grant Program (CDBG)	$ 5,100,000	$ 5,100,000	0	0	
	Total for FY 07	$ 9,480,000	$ 9,480,000	1,000	376	$25,213
FY 08	Accent Marketing Service	$ 1,300,000	$ 612,994	0	0	
	Oceaneering International	$ 2,000,000	$ 2,000,000	420	484	$4,132
	ERA Helicopters**	$ 2,144,080	$ 882,750	50	247	$3,574
	Pratt Industries**	$ 2,500,000	$ 1,566,593	0	n/a	
	Staples	$ 350,000	$ 350,000	434	118	$2,966
	Albemarle Corporation**	$ 3,200,000	$ 2,530,000	30	n/a	
	Total for FY 08	$ 11,494,080	$ 7,942,337	934	849	$9,355
FY 09	ERA Helicopters	**	$ 410,412	0	n/a	
	Pratt Industries	**	$ 933,607	0	74	$12,616
	Albermarle Corporation	**	$ 670,000	30	30	$22,333
	Total for FY 09	$ -	$ 2,014,019	30	104	$19,366
	TOTAL	**$ 34,697,080**	**$33,041,440**	**3,574**	**3,821**	**$8,647**

** These projects were for expenses related to recruitment of ThyssenKrupp.*
***These companies had expenditures spanning more than one fiscal year.*
SOURCE: Report to Joint Legislative Committee on Budget, Dec. 10, 2008, and follow-up information provided by the Department of Economic Development.

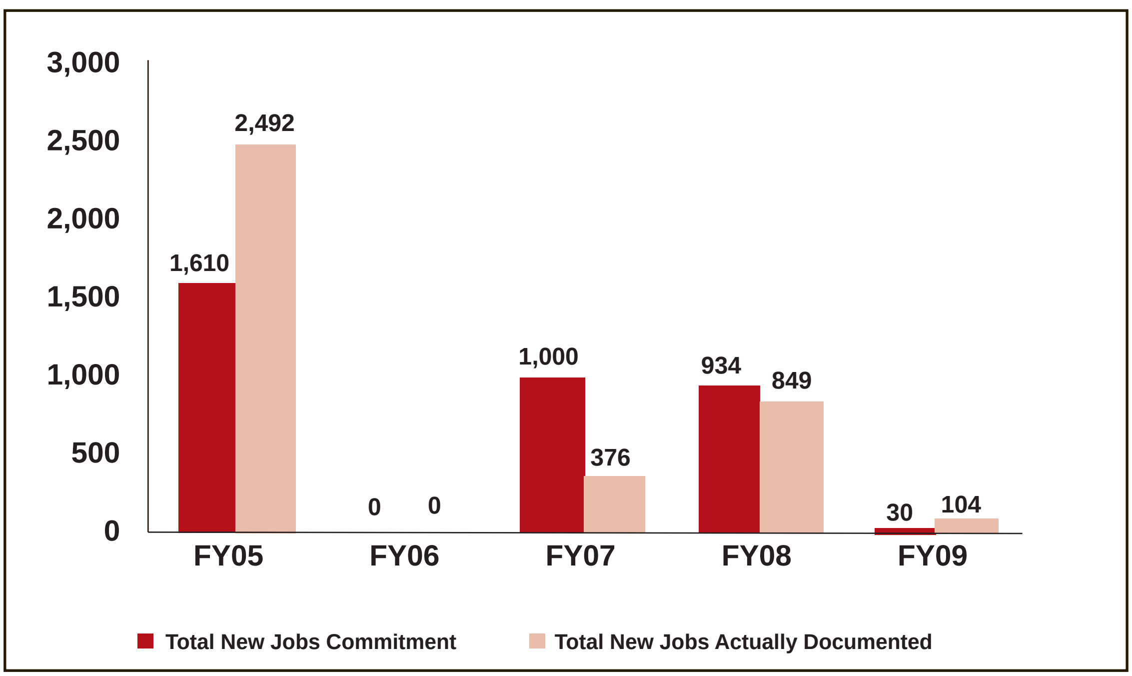
According to LED officials, these investments have yielded a commitment to provide 3,574 new direct jobs, and will enable roughly 6,000 jobs to be retained in the state – if businesses achieve the original job creation targets stated within their agreements. To date, LED estimates that 3,821 of the promised new jobs have been created, with one of the newly awarded projects, Staples, only beginning its ramp-up toward job creation targets. However, because the collection and tracking of exact new and retained jobs is inconsistently reported in public documents, gaining a clear understanding of these achievements is not feasible.

With reported expenditures hovering around $33 million for rapid response projects, this equates to a cost of $8,647 for each newly created job. In terms of jobs committed versus funding allocated, the Rapid Response Fund cost per job is almost $9,708 per job. See Figure 1 for a comparison of proposed to actual job creation by fiscal year.

It is important to note that these job-cost estimates should only be used as a starting point from which to evaluate the return on this particular type of state investment. The number of jobs directly created is but a piece of a complex exchange of resources between the public and private sectors. These calculations reveal little about the overall economic impact of each taxpayer investment as they fail to consider whether the job commitments are being delivered on schedule, what the tax benefit has been to state and local governments, how many indirect jobs have been created or what the salary and benefit levels are.

Enabling legislation provides vague parameters for what makes a project eligible for the Rapid Response Fund incentives. Nearly $20 million was spent in FY 06 and FY 07 to yield only 376 new jobs. During this time frame, only one traditional economic development project was among the projects awarded. NuComm International received $1 million and promised 1,000 new jobs. About $15 million was for hurricane Katrina and Rita recovery programs for small business, with no required job commitment. In addition, nearly $4 million was spent on a variety of surveys and analyses that did not yield any jobs, but were associated with trying to attract the ThyssenKrupp steel production facility that was eventually lost to neighboring Alabama.

Figure 1. New Job Commitments from Rapid Response Fund Projects by Fiscal Year



SOURCE: Rapid Response Fund Expenditure Report, JLCB Dec. 10, 2008, and follow-up documentation from Department of Economic Development.
NOTE: Job commitment figures reflect the commitments initiated each year for delivery over the course of the multi-year projects.

LED officials contend that conducting site preparation surveys is a usual and important task associated with the mechanics of negotiating a business deal. However, department officials have since designated a different pool of resources for this purpose in order to maintain the availability of the Rapid Response Fund for its primary purpose – to tip the scales when Louisiana is at risk of losing out on a promising business opportunity to another state.

In 2002, PAR's report "Considering a Deal-closing Fund for Louisiana" offered a number of recommendations for policymakers as they considered whether Louisiana should develop a deal-closing fund as part of its economic development arsenal. Some of PAR's recommendations were implemented, others were not. In 2009, a number of these considerations remain relevant (see Table 4).

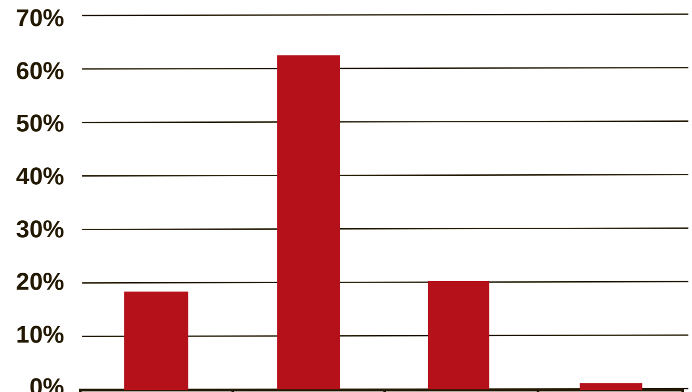
FY 08 and FY 09 saw the greatest increase in both expenditure amounts and the commitments for newly created jobs attributed to the Rapid Response Fund (see Figure 1). For those years, data are available to describe the average annual salaries of the jobs that were committed. Figure 2 shows that many of these potential new jobs would have average annual salaries well above the state median income ($40,160). Still, roughly 18 percent of the proposed new jobs are low-wage jobs that would qualify workers for means-tested government assistance programs such as food stamps.

Because there are no publicly available performance reports to show the wage levels for jobs actually created, these figures represent the negotiated numbers contained within each project's cooperative endeavor agreement. While LED does have a monitoring system in place to collect performance information, officials indicate that not all projects have indicators tied to individual job creation. Instead, some projects have performance targets based on levels of payroll, which reflects a different priority that is more focused on tax potential than employment levels. The implication of this distinction is that companies may bring fewer actual jobs to an area but instead meet payroll targets by creating limited jobs with higher salaries. Regardless of the priority chosen, it is important that standard project monitoring by

Table 4. Relevant Recommendations from PAR's "Considering a Deal-closing Fund for Louisiana"

2002 Recommendations	Status of Recommendation	
A minimum of 25 new permanent jobs and $5 million capital investment. These should be good jobs with health insurance.	Not implemented	The enabling legislation for the deal-closing fund did not include any parameters or minimum standards that would govern the use of funds, and these parameters have not been applied to each deal.
Agreements for deal-closing funds should contain claw back provisions.	Partially implemented	There are no statutory requirements that projects should contain recoupment – or claw back – provisions. In practice, these provisions have been routinely contained within cooperative endeavor agreements for recently negotiated projects.
Details of each project should be publicly available.	Partially Implemented	Details of deal-closing fund projects are subject to public records laws; therefore, they are publicly available through records requests. However, this information is not easily accessible.

Figure 2. Average Annual Salary Levels of Rapid Response Fund Job Commitments, FY 08 and FY 09



	$32,000 or less	$33,000 to $50,000	$51,000 to $70,000	more than $70,000
Jobs committed in salary range	18%	62%	20%	1%

Source: Analysis of Rapid Response Fund Expenditure Report, JLCB Dec. 10, 2008.

LED and reporting by other contract parties enable sufficient data to determine the extent to which "good" jobs were created or retained as a result of the incentive funding.

Oversight and Accountability

LED officials monitor fund recipients through the collection of performance reports and, in turn, report twice per year to the Legislature. Contract monitors internal to LED are charged with collecting performance information from each contractor either quarterly or twice per year. Performance targets are set within each CEA and generally include the time frame by which these targets must be achieved. Within each CEA is also a reporting template that provides the elements that each entity must use when submitting its performance reports. Of the five required elements, three request information on overall project status (is the project on time, what progress has been made, etc.) The other elements seek employee and payroll information, which are the main performance indicators that determine an entity's overall compliance with the CEA. If there is variation from projected amounts, an explanation must be provided.

The contract monitors review these reports and make necessary inquiries as appropriate to the findings of the report. It is not clear the extent to which this process actually happens. The most recent audit findings from the Legislative Auditor for other LED programs found that the stated monitoring and compliance procedures were not being executed as required. LED officials under the prior administration pointed to a state hiring freeze that restricted their ability to hire additional staff needed to adequately monitor projects, despite repeated requests for such staff. The current LED administration has additional designated staff members who are responsible for monitoring rapid response and mega-project fund expenditures and expresses confidence that sufficient monitoring currently does and will continue to take place. However, because performance reporting and monitoring information is collected and compiled via hardcopy, rather than stored electronically, officials do not have ready access to information for comparison purposes. Thus, summary information of achieved performance against required performance is irregular or unavailable.

Mega-Project Development Fund

Tax credits are the most common type of economic incentive, but the most common type of financial incentive is one designed to address larger infrastructure-type needs for relocating or expanding businesses. With Act 208 of 2007, Louisiana expanded its toolbox of incentives by creating the Mega-Project Development Fund, which allows for significant investment in such things as infrastructure development designed specifically to attract large-scale projects that can promise at least 500 new jobs. The fund emerged on the heels of losing German steel manufacturer ThyssenKrupp, which decided to locate in neighboring Alabama, rather than Louisiana. The Legislature had appropriated funds designed to offer incentives to attract the steel giant, but when Louisiana lost the deal, the funds were redirected to create a dedicated fund for attracting similar large-scale projects. Additional funds were requested and ultimately approved based on anticipated needs for potential projects already under negotiation.

Unlike the Rapid Response Fund, the mega-project fund has several eligibility requirements for a project to be considered. Negotiation for potential projects is initiated by LED and the governor. Once the parameters of the deal are constructed, approval for the project and expenditure from the mega-project fund rests with the Joint Legislative Committee on the Budget, which appropriates the expenditure out of the mega-project fund. Obtaining legislative approval is seen as a check-and-balance in the process to make certain that there is the appropriate level of scrutiny in how projects are developed and funded. Critics, however, contend that the approval process is a formality or a rushed part of lengthy budget meetings where state officials essentially request a rubber-stamp approval on deals, the terms of which have already been negotiated. This leaves little opportunity for public debate.

Under original legislative requirements established in 2007, to be considered for the mega-project fund, a project must guarantee all of the following:

- Creation of 500 or more new jobs;
- $100 million minimum investment by the private sector;
- Substantial return on investment through projected tax revenue; and
- State investment not to exceed 30 percent of total project cost.

Additionally, a project could be considered if it was a “federal installation which is important to the Louisiana economy and that may be subject to base realignment and closure.”

Although the mega-project fund was not designed as a deal-closing fund, the nature of these requirements is closely aligned with previous PAR recommendations in its 2002 report “Considering a Deal-closing Fund for Louisiana” (see Table 4). However, from the outset, the fund was used for projects that did not meet these requirements. In 2007, the same year the fund was created by Act 208, legislators appropriated money out of the fund for the Cyber Innovation Center (a research park supporting Air Force Cyber Command at Barksdale Air Force Base) and the University of Louisiana at Monroe School of Pharmacy for building construction and renovation. The Cyber Innovation Center expenditure was never made, because the Air Force did not select Louisiana for the Cyber Command. The pharmacy school did receive its $4.5 million.

This casual approach to the restrictions on the fund’s use was an early indication that the mega-project fund might not be left intact long enough to attract that hoped-for “mega” project along the lines of what was originally envisioned in the lost ThyssenKrupp deal. The following year, prior to ever having supported one deal meeting the statutory parameters, another expenditure from the fund was directed by the Legislature. Act 513 of 2008 ordered $48.6 million to be used for a one-time salary supplement for school support workers.

The initial outlay of $150 million was supplemented in 2008 with more than $300 million from a budget surplus, bringing the total value of the fund to more than $450 million. At the start of budget negotiations for FY 10, the fund balance was $415 million, which far exceeds the amount commonly held by big project incentive funds in other states. Most states’ fund availability averages between $20 million and $30 million. Only Arkansas’ Superproject Fund and New Mexico’s Invest New Mexico fund generally hold more than $200 million.

Until May 2009, there were no mega-projects that had reached the approval stage. In rapid succession, the following five projects were announced:

- $50 million for the Foster Farms chicken processing plant in Farmerville;
- $125 million for the federal city project in Algiers;

- $55.5 million for the NASA Michoud Assembly Facility in eastern New Orleans;
- $69 million for the V-Vehicle Company in Monroe; and
- $26.6 million for the SNF chemical manufacturing plant in Plaquemine.

The requirements were officially softened in the 2009 legislative session to enable the funding eligibility of one project that could not meet the required elements as originally constructed. The criteria were changed to allow the following:

- 500 or more new jobs; OR a minimum private sector investment of $500 million;
- State investment not to exceed 30 percent, with the exception of a land purchase; and
- Projects allowing for the re-creation or saving of at least 500 jobs, resulting from transfer of ownership following a bankruptcy filing.

The total of approved expenditures on the five projects was $327 million, leaving a balance of approximately $89 million for other projects in negotiation. A total of 3,012 new jobs were contractually committed for the three private-sector agreements. LED expects more jobs to be created by the NASA/Michoud and federal city agreements, but the federal government will not provide contractual job creation commitments to states.

A separate project withdrawn by the Shaw Group just prior to approval would have provided $29 million for a plant in Calcasieu Parish to manufacture components of nuclear reactors. The corporation withdrew its request for funding to make a public statement about the state's need to mitigate cuts to higher education. The project will proceed without state financial incentives.

There are ongoing negotiations with Nucor Corporation to build a $3 billion iron mill in St. James Parish if the company's site selection experts choose Louisiana over a competing site in Brazil. The proposed site was rejected by ThyssenKrupp in previous negotiations for a steel mill.

The Foster Farms deal represents a departure from the original construct of the mega-project fund, and it required legislative action to tweak the statutory requirements so that it could meet the minimum parameters to qualify for the incentive. It promises investment of $100 million and 1,100 direct jobs – most of which will be re-created due to ownership transfer following bankruptcy filing. Despite this departure, department officials contend that it is essential to expanding the state's economy and thus is an appropriate and justifiable use for the mega-project fund.

In contrast, the V-Vehicle Company (VVC) based out of San Diego, Calif., chose Louisiana over competing states as the site to build its new American Car Company. VVC would have met the original threshold of the mega-project fund due to its capital investment of more than $248 million and commitment to create 1,400 new jobs. Similarly, the SNF chemical manufacturing project would have met the original threshold by its commitment of 512 new jobs and a private investment of $350 million. The NASA and federal city projects, neither of which is contractually committed to creating new jobs, met the original threshold under the parameter that allows qualification for certain federal projects.

Buying the Competitive Edge

Louisiana is among only seven states that have a distinct deal-closing fund and a larger incentive fund in their arsenal of tools to lure business. (Arkansas, Florida, Georgia, Mississippi, Pennsylvania and Virginia are the others.) But does the presence of formal financial incentive mechanisms – like the Rapid Response Fund and the Mega-Project Development Fund – truly influence business decisions?

Both business leaders and economic development experts agree that the availability of financial incentive funds alone does not drive final site selection for a business; nor does their availability alone make a state an attractive, or even competitive, option. Rather, a set of "fundamental" elements must be apparent to companies as they identify possible locations for their businesses. These fundamentals include common-sense characteristics such as site quality, labor force characteristics, basic infrastructure, tax and regulatory structure, and overall business climate. However, these experts contend that the mere availability of incentives is increasingly important to even be considered on a short list of potential sites. In situations where the core factors are similar, economic development experts assert that incentives can become important bargaining tools that can sway, and make, a deal. But business leaders suggest that they will go where they have the greatest opportunity for success, regardless of publicly-funded financial incentives. Three recent examples underscore each of these scenarios.

First, the mere availability of incentives (including training incentives) was a critical factor in becoming a contender for the VVC project – without them, Louisiana would not have had the opportunity to negotiate the terms of a potential project. VVC project investors were quick to articulate that they received higher incentive offers from other states, but the combined factors of location, customized workforce training and incentives weighted their decision to choose Louisiana. Second, the Shaw Group ultimately declined the state's offer for using mega-project fund incentives, deciding instead to proceed without them. In this case, the presence of incentives likely had no bearing on site selection. Lastly, the experience of losing ThyssenKrupp to neighboring Alabama shows that even where incentive fund offers are greater, large gaps in the fundamental, essential elements of doing business are not compensated for by offering incentives.

Louisiana lost ThyssenKrupp not because the state's offer of incentives was less, but because the cost and logistics of doing business in Louisiana were too high. In contrast, Alabama had utility, infrastructure and labor costs more aligned with the needs and timing of what the company was seeking. The combined effect of these factors, along with incentives, made the total package more attractive. However, had Louisiana not committed the resources for incentives prior to the negotiation, the state would not have been considered at all.

These examples are perhaps overly simplified, but are nevertheless useful in underscoring the message that offering money cannot bridge large gaps in what companies believe are critical drivers of success. Financial incentives can address some of the more tangible factors needed for business, but only if companies believe a foundation for their success already exists.

Economic development officials in other Southern states strongly support the argument that incentives matter for job creation. Neighboring Alabama credits the creation of more than 6,500 jobs, in part, to the incentive packages that were offered in order to lure companies such as ThyssenKrupp and Hyundai Motor Manufacturing. Texas claims more than 55,000 jobs and nearly $13 billion in economic impact as a result of using incentives to lure business.

Site Selection Magazine's annual survey of executives charged with identifying potential sites for business expansion, consistently lists the availability of incentives as a top 10 factor in location decision making – behind more fundamental factors such as infrastructure, workforce quality and tax structure. While dropping a few notches in 2008 from a no. 5 spot in 2007, incentive availability does appear to be a significant factor in business considerations, but still less than quality of life factors (see Table 5). A similar survey of corporate executives completed annually by Development Counselors International (DCI) in 2008 yielded the same finding. It cited the availability of incentives – behind labor quality, operating cost, infrastructure and a business-friendly government – as a critical factor in making location decisions.

Table 5. Top 10 Location Considerations

	2008	2007
1	Ease of permitting and regulatory procedures	Availability of desired workforce skills
2	Transportation infrastructure	Ease of permitting and regulatory procedures
3	Existing workforce skills	State and local tax structure
4	State and local tax structure	Land and building prices and supply
5	Utility infrastructure	Availability of incentives
6	Land and building prices and supply	Transportation infrastructure
7	Workers' comp rates	State & local economic development strategy
8	Flexibility of incentives programs	Flexibility of incentive programs
9	Higher education resources	Higher education resources
10	Availability of incentives	Union activity

SOURCE: Site Selection Magazine, Annual Business Climate Survey, November 2008 and 2007

Is Louisiana in the Game?

If the business landscape, rather than the availability of financial incentives, is the true driver of economic development, is Louisiana a true competitor? It might depend on whom you ask.

It's no secret that Louisiana suffers from a reputation for political corruption. For some, the lingering perceptions about the impact of Hurricane Katrina seem to cast shadows as to the readiness of Louisiana to be a contender for large-scale projects. These perceptions, combined with the hard facts of an uneducated workforce and the quality of education in Louisiana, were significant factors in earning Louisiana the 49th spot on Forbes' annual ranking for the Best Places for Business, the same spot it held in 2007. Similarly, Chief Executive Magazine's "Best & Worst States" annual polling of chief executives compares states according to tax structure, workforce quality and living environment and ranked Louisiana 46 as a best state for business. Lastly, the Milliken Institute ranks Louisiana the third most expensive state among Southern states in 2007 for the cost of doing business, citing tax burden and utility cost as the largest factors in this determination.

Table 6. 2008 Top Business Climate Rankings

1	North Carolina
2	Tennessee
3	Alabama and Texas
5	Indiana
6	Florida
7	Ohio
8	Virginia
9	Illinois
10	Georgia
11	New York
12	Kentucky and Missouri
14	South Carolina
15	Pennsylvania
16	Michigan
17	Mississippi
18	Iowa
19	Maryland and Minnesota
21	Kansas
22	Louisiana

SOURCE: Site Selection Magazine, Annual Business Climate Survey, November 2008

But, there is a glimmer of hope. Site selection experts are beginning to recognize Louisiana's effort to improve in recent years. For the first time, a survey of site selection experts has ranked Louisiana No. 22 in the ranking of states with the best business climate (See Table 6). While this is a positive step, worth noting is that all of Louisiana's main competitors, with the exception of South Carolina, are ranked in the top 10 – North Carolina, Alabama and Texas securing the first and third spots, respectively. Because many potential projects come to Louisiana by way of site selection experts, this is a critical perception in that it means more people are beginning to view Louisiana as a viable business location. Even ethics reforms touted by Gov. Jindal are cited by experts as outside indicators of Louisiana's effort to be a real competitor.

State economic development officials recognize the need to improve Louisiana's competitive landscape and its external perception. LED is working to improve the state's competitive edge through new efforts in marketing the positive qualities of Louisiana, dispelling confusion about the lingering effects of Hurricane Katrina and creating a new turnkey workforce training initiative. These efforts now comprise the LED's top priority, in contrast to the historical sole priority of cultivating new and existing business, with little attention to how the "Louisiana product" appeared to outside entities. While not abandoning this historical strategy, prioritizing some of the fundamental items that get Louisiana noticed is a new approach and a realization that there is internal responsibility for leveraging the strength of the state while simultaneously working to address its deficiencies. As Louisiana works to expand its economic base beyond traditional industries, this effort will become even more crucial.

Ensuring Outcomes, Accountability and Transparency

The art of deal-making lies in securing the best possible return in exchange for the smallest amount of resources. To make certain these public expenditures for economic development incentives are aligned with achievable outcomes, the financial incentive spending process must balance appropriate levels of confidentiality and transparency while simultaneously demanding high levels of accountability. Louisiana has not achieved this balance.

PAR has identified the following solutions to ensure that taxpayer dollars are spent according to standard and robust guidelines demanding measurable outcomes that are comprehensively available and accessible.

Recommendations

Recommendation # 1: Establish statutory requirements to guide future Rapid Response Fund project agreements.

The statutory parameters for the Rapid Response Fund require only that funds be used to pay for "all or a portion of economic development projects which may be necessary to successfully secure the creation or retention of jobs ... " The vague nature of this language allows for considerable discretion in determining the nature and scope of projects that receive rapid response funding. Moreover, there is no statutory requirement that each project agreement contain commitments for job creation and recoupment – claw back – provisions. Instead, these determinations are left to state officials who may choose to draft very general, or very specific, types of arrangements with entities receiving incentive funds.

By design, Louisiana's statutory exclusion does not imply a deficiency, but it creates a high standard of trust that current and future state officials will exercise needed internal controls requiring these elements even in the absence of statutory prompts. Department officials argue that the current arrangement allows for maximum flexibility in targeting funding that meets the unique circumstance of each project.

Currently, Louisiana relies on the strength of cooperative endeavor agreements (CEA) to address project-specific requirements and benchmarks. These agreements assign specific responsibilities to each party and outline the critical performance benchmarks (i.e., job creation targets) and claw back terms if performance falls short of expectations. Without statutory requirements, state officials seem to have exercised a fair amount of diligence, particularly in recent years, in establishing clear expectations within the CEAs. But, this hasn't always been the case and there is no requirement that current practice continue in the future.

Not all rapid response projects have met outcome expectations as part of their agreements, data are not uniformly collected and project outcomes are inconsistently reported. For example, expenditures in FY 06 and FY 07 to aid businesses in the aftermath of Hurricane Katrina likely yielded some economic benefit and aided in the retention of jobs. But because there was no minimum threshold for what the expected outcome should be (i.e., job creation or retention), there is no way to attribute any measurable outcome to the use of these funds. More recently, job-related benchmarks have been consistently required and some benchmarks are captured only in total payroll terms, rather than employment and salary levels.

Additionally, statutory standards should be revised to require each project's legal agreement to include these elements:

- A minimum number of direct, full-time, created or retained jobs;
- A specified time-frame by which these job-targets are to be achieved;
- Specific salary expectations for job commitments, with emphasis on wage levels in excess of federal poverty;
- Reporting requirements that indicate health insurance benefits, salary and wage levels, and indirect job estimates;
- A minimum level of capital investment to be made by the receiving entity;
- A specified process by which all targets will be validated; and,
- Required recoupment procedures for non-performance.

Basically, for each economic impact element used as justification for each project, there should be a corresponding contractual requirement that a certain threshold be met and a standard reporting and monitoring process identified. Using these requirements to drive standard components of CEAs would enable consistent reporting across projects, so they could be meaningfully compared and results could be meaningfully aggregated.

Had these parameters been in place, several of the projects receiving rapid response funding since 2005 would have been required to meet greater levels of performance and reporting, or would not have been eligible for this source of funding. For example, any project in Table 3 that does not show a number in the jobs committed column would have been required to commit to creating some number of jobs, or be eliminated from consideration.

Projects not meeting Rapid Response Fund requirements could have accessed other available funding.

In the nationwide context, deal-closing funds, such as the Rapid Response Fund, are intentionally designed to be very flexible. In fact, this flexibility is cited by business as a critical factor in negotiations. The broad nature of Louisiana's statutory requirements is not unique to Louisiana. Several other states have altered their original statutory requirements to add more detail about what is expected of projects receiving incentives.

Arkansas provides even fewer parameters in both its deal-closing and its large-project fund than Louisiana currently does. In contrast, Texas sets forth specific terms for liens, transfer of ownership and repayment expectations related to its fund used to build capital improvement. North Carolina goes a bit further by specifying that any agreements utilizing deal-closing funds must include parameters that specify numbers and salary ranges for jobs, the time period for creating and maintaining these jobs, recoupment terms and quarterly reporting. Some states even limit deal-closing funds solely for use in attracting companies that are relocating from out of state or limit their use for the creation of new jobs, rather than retained jobs. Given the high ranking of both North Carolina and Texas for their overall business climate, these accountability parameters do not seem to have hindered either their ability to be competitive or to secure business deals.

Recommendation # 2: Expand the information provided in the biannual reports to the Legislature to include economic impact and performance information that enables the public to compare what was promised to what was delivered for each project funded by the Mega-Project Development Fund or the Rapid Response Fund.

Public reporting requirements are insufficient to provide any degree of understanding regarding the performance of projects that have received financial incentives, or to determine the extent to which a return on investment is occurring. LED is required to submit reports on Rapid Response Fund and mega-project fund expenditures to the Joint Legislative Committee on Budget (JLCB) twice yearly, once in April and again in October. However, program expenditures are the only required reporting element. No matter how robust the parameters for providing the cash incentive funds in the first place, if there is no requirement for reporting on outcomes, there is no public accountability to document success or to drive the execution of clawback provisions.

The significant taxpayer investment of $10 million to several hundred million dollars each year calls for something greater than trust and hope that future leaders will maintain the current commitment to using funds for their intended purpose and refrain from using the funds to provide financial benefits to business with few expectations. This is not to suggest that the return on investment is not being generated by recent projects; LED officials have some data to suggest otherwise. But, those data are not uniformly compiled across each project, nor are they regularly collected or easily accessible to the public. Given Louisiana's storied history of political corruption, the inconsistency of available outcome information is a critical void that should be remedied.

At a minimum, required performance reports should include such basic comparative elements as performance targets (what was promised) and outcomes (what was delivered), actual job creation and retention, and overall payroll generated. A comparison of the intended economic impact and the actual impact in relation to the contractor performance should also be included. Further, LED should maintain electronic availability of this information, rather than its current practice of collecting hardcopy reports without compilation.

Recommendation #3: Publish on the Department of Economic Development Web site certain general details about each pending mega-project deal, including at a minimum, the parish(es) being considered for location and the nature of the business to be subsidized.

The longstanding practice in Louisiana and other states is not to release any details of pending projects to the public. The media are often the sole source of information about pending projects, as state officials are silent on most elements of deals under negotiation. State negotiators assert that releasing information about these negotiations would jeopardize the state's chances of winning certain projects because it would weaken the competitive edge. Or worse, additional openness could prevent would-be business prospects from even considering Louisiana. Proponents of greater transparency suggest that the public's right to know and understand the nature of negotiations outweighs those arguments.

Understandably, there are trade secrets and proprietary information that should be protected from industry competitors; as there are aspects of what Louisiana may offer to potential business that likely should be kept from state competitors. However, the public should be informed of potential projects that are considering locating or expanding within a particular geographic area. Knowing the details of a deal after the negotiations are final does not afford the public the opportunity to become involved where appropriate.

Louisiana law provides confidentiality for all elements of economic development negotiations if the negotiating party requests such confidentiality. The requestor must specify the reason for confidentiality and that the negotiation is dependent upon this confidentiality. The LED secretary must then make an official determination regarding the confidentiality request, and publish this determination in the official journal of the state. Once a negotiation is no longer active, details of the negotiation become a matter of public record and can be requested. The statute offers further protection for proprietary and trade secret information, which might include certain patterns or formulas or a method or process that are particular to a specific company. If a company shares information with another source that it has requested Louisiana keep confidential, Louisiana is not bound to protect the confidential nature of the information.

This process requiring a formal request of confidentiality has been rarely engaged. In practice, confidentiality is routinely exercised without completing the formal process. LED officials and other site selection professionals agree that confidentiality during the negotiation phase is essential to striking these deals.

The VVC deal is a prime example of the extreme secrecy that some companies require. To ensure confidentiality and protect the company's proprietary information, LED collected the results of its third-party economic impact analysis (used to justify the state's investment) through means that did not require LED to "take ownership" of any documents related to the analysis. Officials reviewed the results orally and in online form to avert a paper trail. LED officials contend that had additional transparency been required, the 1,400 jobs promised by VVC would have been committed somewhere other than Louisiana, as corporate officials would not have negotiated with the state.

Despite this risk and at a minimum, LED officials should provide a list of the nature and proposed location of each potential deal. Making this information easily accessible to the public and stakeholders alike would remove the air of secrecy, which can create a suspicion of impropriety.

Recommendation #4: Publish on the Department of Economic Development Web site copies of all legal agreements, required reports and economic analyses guiding and informing Mega-Project Development Fund and Rapid Response Fund expenditures for each project.

A variety of internally and externally generated reports to project economic impact and measure outcomes exist for each project that has been funded by the Rapid Response Fund. And, additional reports have been or will be created for each of the mega-project deals. Though this information is available through a public records request, it is not made easily accessible.

Louisiana is not alone in this arena; more than half of states do not disclose incentive performance information on their Web sites. The watchdog group Good Jobs First monitors transparency across states and recently completed an evaluation of state economic development disclosure practices for incentives, contracts and lobbying activities. Louisiana, along with Alabama, Florida, Georgia and several other Southern states, received failing grades for the amount of information available electronically. Only 11 states received passing grades in this evaluation, including North Carolina, the only Southern state to make the grade.

While Good Jobs First frowned upon the amount of online information available for both Louisiana and its competitors, many of Louisiana's neighbors do have related information available on their Web sites that is useful. For example, Alabama makes its economic impact analysis (or a version of it) available to download, and Georgia and Arkansas publish lists of their awarded projects. There is some progress being made by Louisiana as the current LED leadership has expanded the information available on economic development by creating a quarterly newsletter, and they have committed to add more project information online. But, with more than $400 million in taxpayer resources at stake, Louisiana should do better.

Some performance information, such as third-party economic impact analyses and return-on-investment analyses, for some of the projects funded by financial incentives in Louisiana, is available through a public records request. But that information, in addition to legislative reports, should be made available online for quick and easy access to gauge the accountability for and effectiveness of corporate cash in incentive payments. In addition, all contract amendments should be published on the Web site as they are made. Annual/quarterly progress reports, project budgets, cost reports, payroll documentation and other similar documents should also be posted.

The contracts and cooperative endeavor agreements outline each project's performance targets, and the economic impact analyses (conducted in-house or by third parties) outline the justification for each project. This information should be easily accessible to ensure that early promises and expectations are not forgotten or overlooked as new deals take the spotlight. The taxpayer investment made with financial incentives should be able to be easily and rigorously monitored by taxpayers. It should be noted that the administration has committed to making copies of all state contracts available on the LaTrac online database of spending information. Regardless of progress on that front, LED should ensure full and accurate reporting by providing these documents on its Web site in association with all of the other documents relevant to each incentive fund project.

Online access to this information would not only serve the public interest, but would make Louisiana a leader in data reporting among other Southern states. Providing this level of accessibility to performance information would encourage realistic measures to be established at the outset of negotiated deals.

Conclusion

The availability of incentive funds like the Rapid Response and Mega-Project Development Fund to lure and retain business is viewed by a wide variety of experts as a critical component to economic development. LED officials assert that the potential for nearly 16,000 direct or indirect jobs can be attributed to projects funded with the state's Rapid Response Fund. Of these, LED officials estimate that almost 4,000 direct new jobs have been realized – although public information that would confirm this information is extremely limited and inconsistently available.

To ensure the most effective and accountable use of taxpayer dollars, the state's economic development incentive funds should be spent with maximum transparency. Louisiana can become a leader in openness without jeopardizing its growing competitiveness by implementing the recommendations in this report. While the state's use of financial incentives is consistent with practices in other states, it lacks some of the oversight and accountability mechanisms in place in neighboring states that are leaders in this area.

At a time when all state resources are scarce, the public must be secure that state investments will yield something tangible in the form of sustainable jobs and other measurable economic benefits. This could be accomplished by further defining statutory guidelines for the Rapid Response Fund, providing more precise measurement and reporting of outcomes for both funds, and making all relevant information easily accessible to the public.

If Louisiana can truly use these incentives to create more economic opportunity, it will be money well spent. Early results are promising that Louisiana's use of incentive funds will yield the hoped-for outcomes of sustainable jobs, a more dynamic economy and the credibility it needs to attract new investment without the lure of cash subsidies. However, to boost public confidence and minimize the risk of waste, the state's use of cash and other financial incentives should be more consistently and publicly documented.

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