



Baton Rouge Area Chamber®

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BRAC Public Policy Commentary: In filling budget hole, don't throw the baby out in with the bathwater

By Michael DiResto

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It was difficult to overlook the disconnect between two separate actions leading the news from the state Capitol on Tuesday: the first, a report from the Louisiana Workforce Commission documenting continued private sector job growth in the state, including a new and unprecedented high level in the Baton Rouge area; the second, the passage in a state Senate committee of a number of revenue-raising bills, including ones that significantly curtail the very type of economic development incentives that have helped power the state's job-producing momentum.

Taking a closer look at that Workforce report, it notes that "total nonfarm employment for the Baton Rouge [area] was estimated at 400,400 for April 2015. This shows a gain of 1,000 jobs over the month and an increase of 7,700 jobs over the year. The total nonfarm employment level is *the highest for the month of April in the history of the series.*" _While government reports rarely generate excitement, the milestone aspect of this one certainly merits it, showing Baton Rouge-area nonfarm jobs now surpassing the 400,000 level. Also, it's not all the time that a government update uses language like "highest in the history" of the report. But just as promising is that the Baton Rouge region is showing solid gains over a broad number of sectors, which demonstrates the kind of diversification we want, as well as growth.

If today's economic picture looks impressive, the outlook for tomorrow and beyond appears even more so. Major project investments either announced or already underway statewide have been pegged conservatively at \$60 billion and as high as \$100 billion in the coming years, with initiated and expected project investments in the Baton Rouge area alone ranging from \$15 billion to as high as \$23.7 billion by the Greater Baton Rouge Industry Alliance. Along with these investments, Dr. Loren Scott projects that the Baton Rouge area itself could see the addition of 21,700 jobs over the next two years.

As BRAC has helped to point out before:

Tax incentives play a vital role in this success. While projects are rarely determined solely on incentives, these programs do play a critical dual role of first attracting attention to a state that has historically been ignored, and second, of providing a difference in the final decision against stiff competition, like Texas.

Which brings us back to the state government budget, now working its way through the state Senate. Filling a \$1.6 billion budget hole is understandably a difficult task confronting legislators, particularly as they grapple with efforts to protect vulnerable priorities like higher education and health care. What's troublesome, however, is the sweeping and permanent

nature of some of the measures making their way through the legislative process, which, if passed into law, could severely hamper Louisiana's job-creating momentum.

Of particular concern are HB 629 and HB 635, which impose across-the-board cuts of up to 28 percent for numerous tax credits and rebates. While applying these tax changes across-the-board seems, on the surface, like an exercise in fairness, in reality, just like across-the-board spending cuts, they have the practical effect of arbitrariness – treating all programs the same regardless of their importance, performance, or priority.

Much of the focus with regard to state government’s fiscal “structural imbalance” has fallen on the numerous tax incentives, exemptions, and rebates present in the tax code, but it’s important to note that, contrary to a growing misperception, the toolkit of programs used to spur state economic development represent less than five percent of the total amount calculated in the Louisiana Department of Revenue’s tax exemption budget report.

While BRAC appreciates the need to review and modify certain incentives, and has even supported tightening eligibility and duration requirements for the Enterprise Zone and Angel Investor tax credits, we strongly encourage lawmakers to reconsider including these and other instruments that make up Louisiana’s vital economic development toolkit in these bills.

For reasons, we echo those recently expressed by Michael Hecht, CEO of our partner organization, Greater New Orleans, Inc.:

First, in addressing the public deficit of today, we should not pull the rug out from underneath the private sector growth that is laying the foundation for tomorrow.

Second, whatever the budget solution in 2015, it should not complicate or preclude desperately needed structural reforms in 2016 — we shouldn’t tie the hands of the next governor and legislature.

In addition to the constitutionality questions some have raised about these bills having passed the House without a two-thirds vote of support, HB 629 and HB 635, by including economic development incentives within their sweeping purview and by making the tax changes permanent, do indeed fail to heed these two common-sense concerns of Mr. Hecht and the broader business community across the state.

And of course, of primary concern is to safeguard existing and future opportunities for every Louisiana citizen seeking a new job or a better one. To that end, while there’s still time, we hope that legislators will instead take a more careful, targeted, and selective approach, and to consider temporary changes that avoid both constitutional difficulties and long-term negative economic and fiscal consequences.

Like a young child taking her first confident steps, Louisiana’s job-producing economy shows extraordinary promise, with the Baton Rouge region leading the way in job growth over the last year and breaking historic milestones. These jobs not only represent better quality of life and opportunity for our citizens, but also point the way toward increased economic activity that will itself generate more tax revenue for state coffers. As legislators work hard to fill the government budget hole, pouring as many solutions as possible into the mix, we urge them not to stymie this promising future by throwing the baby out with the bathwater.

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