

ITEP UPDATE

2018 LSBA SRLC

OVERVIEW OF ITEP PRIOR TO THE JUNE 24, 2016, EXECUTIVE ORDER

What is the Industrial Tax Exemption Program (ITEP)?

- The Industrial Tax Exemption Program (ITEP), which is established in the Louisiana Constitution, was a 10 year (five year initial term + five year renewal term), 100 percent exemption from local property taxes
- Local governments had no voice in the decision. If a company met the eligibility requirements, they were granted the 10 year exemption from

Source: LED analysis, Louisiana State Constitution, Louisiana Administrative Code, ITE Program Rules

LOUISIANA ECONOMIC DEVELOPMENT

THE GOVERNOR'S 2016 EXECUTIVE ORDERS AND SUBSEQUENT ITEP RULES CHANGES OUTLINE NEW REQUIREMENTS FOR QUALIFYING PROJECTS

New requirements for ITEP contracts

Executive Orders JBE 2016-26 and JBE2016-73 provide the terms and conditions by which the Governor is to determine whether or not contracts with ITEP applicants are in the best interest of the State

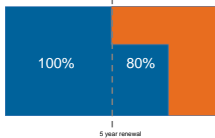
Cooperative Endorsement Agreement (CEA) with LED	All companies must enter into a CEA with LED in order to have their ITEP contracts approved by the Governor. The CEA will outline agreed-upon baselines for the creation (or, in rare cases, retention) of jobs, and terms under which the exemption may be reduced or eliminated should the applicant fail to meet these job creation or retention baselines.
Approval of local governing authorities	Local government approval must be granted and must be in the form of resolutions of support by four relevant authorities: 1) Parish Council or Police Jury, 2) Municipal Council, 3) School Board, and 4) Sheriff.
Original Exec Order cap on renewal term	The local governments can agree to alter the term or percentage of the exemption granted up to a 100% exemption for 5 years and up to 80% for an additional 3 years based on the competitiveness of the project.
New ITEP terms based on updated rules	Upon approval by the Board of Commerce & Industry, local governments may give an up or down vote on the exemption. The terms for companies statewide are an 80% exemption for 10 years. Any local entity that votes not to award the exemption will keep their portion of the property taxes.

Source: LED analysis, Executive Order JBE 2016 - 26 (June 24, 2016) and JBE2016 - 73 (October 21, 2016)

LOUISIANA ECONOMIC DEVELOPMENT

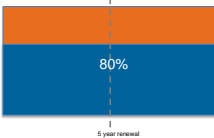
ITEP PERCENTAGE AND TERM UNDER ITEP 1.0 VS. ITEP 2.0

Current - Effective 10 year rate of 74%



100%
80%
5 year renewal

New - Fixed 80% exemption for 10 years



80%
5 year renewal

A fixed 80% exemption for 10 years allows local governments to begin collecting property taxes immediately, rather than in year six, after years of property depreciation

LOUISIANA ECONOMIC DEVELOPMENT

PRIOR TO THE NEWLY UPDATED ITEP RULES, LOCAL GOVERNMENTS WERE REQUIRED TO APPROVE CONTRACTS EARLY IN THE EXEMPTION PROCESS

1. ITEP application submitted to LED
2. Local governing bodies approve/disapprove the application:
3. BC&I votes on ITEP application - approvals are posted on the board website and local governing bodies affected receive written notice
4. ITEP application receives final approval from the Governor

Starting with local approval puts the onus of evaluating projects on local government, which in some cases lacks the resources to properly evaluate all aspects of manufacturing projects.

LOUISIANA ECONOMIC DEVELOPMENT

A NEW APPROVAL PROCESS WILL ADD PREDICTABILITY AND ASSIST LOCAL GOVERNING BODIES WITH PROJECT EVALUATIONS

1. ITEP application submitted to LED
2. BC&I votes on ITEP application - approvals are posted on the board website and local governing bodies affected receive written notice
3. Local governing bodies approve/disapprove the application: (1) if no action taken within 30 days, the application is deemed approved or (2) notice intent to act within 30 days and have an additional 30 days to vote up or down (60 days total).
4. ITEP application receives final approval from the Governor

Moving BC&I to the beginning of the process will assist locals with evaluations and also add a level of predictability for companies.

LOUISIANA ECONOMIC DEVELOPMENT

LONG-TERM LOCAL REVENUE FROM A PROJECT SUBSTANTIALLY OUTWEIGHS THE SHORT-TERM EXEMPTION

Illustrative examples of ITEP exemption amounts vs. long-term revenue gains

Example Project ¹	Exempted amount from ITEP program ²	Amount of local taxes generated by the project over 30 years ³
\$50M CAPEX \$1M PAYROLL (SMALL PROJECT)	\$4.7M	\$8.1M
\$100M CAPEX \$5M PAYROLL	\$9.5M	\$24.4M
\$1B CAPEX \$5M PAYROLL	\$94.9M	\$121.4M
\$1B CAPEX \$50M PAYROLL	\$94.9M	\$243.5M
\$5B CAPEX \$50M PAYROLL (MEGA PROJECT)	\$474.7M	\$674.9M

¹ Example project is based on a petroleum and coal products manufacturing project using East Baton Rouge for mileage and local taxes purposes.

² Based on maximum exemption amount – 100% exemption for first five years and an 80% exemption for an additional three years.

³ Local taxes generated over the life of the project comes from (1) sales taxes: (a) taxes on materials and supplies and (b) indirect and induced effects on sales taxes from payroll multipliers; and (2) non-exempted property taxes 10m years 9 – 30.

Source: LED Analysis

ITEP IS A GREAT TOOL TO HELP COMMUNITIES RECRUIT JOBS AND INVESTMENT

- ITEP is a **long-term** win for your local community – generating millions in sales and property taxes over time from new jobs and capital expenditures in the area.
- Manufacturing jobs provide a greater economic impact to a community than many other industries.
- Due to the competitive landscape for capital intensive manufacturing projects, it was important to offer the right amount of ITEP or your community could lose the project entirely.
- Local approval is streamlined, transparent, and efficient so as to provide clarity and transparency for local government while still providing predictability and certainty to companies considering Louisiana as an option for investment.
- You are not alone in this process! You can partner with your local EDO or LED for guidance and recommendations on how your local governing authority can move forward with a streamlined ITEP approval process.