

# CPPPC

## City-Parish Planning Commission

*Baton Rouge, Louisiana*

INFORMATION BULLETIN

Number 41

## Economic Incentives

In order to promote growth and fuel their economies, governments offer incentives to facilitate private enterprise. From military escorts to royal patents, governments have created ways to allocate public resources to the private sector in exchange for the economic benefits to be derived from successful commercial ventures.

### Existing programs

Louisiana's original incentive program is the **Industrial Property Tax Exemption**.

Administered by the Louisiana Department of Economic Development, this program abates local property taxes (Ad Valorem) to



manufacturers for new investments and miscellaneous capital additions to existing facilities in the state. It applies to all improvements to the land, buildings, machinery, equipment and any other property that is part of the manufacturing process as long as it remains on site. The abatement period is five years, with the option to renew for another five years.

While tax abatement programs like this one do improve the climate for doing business, research suggests that the effects are too generalized. Although in some instances the offer of direct tax relief plays a critical role in the manufacturer's decision to move or remain in the jurisdiction, just as often, it rewards businesses for doing things they would have done anyway. Accordingly, newer economic incentive programs have been designed to promote decisions that meet identified public goals, such as employment and urban revitalization. Only select activities within targeted neighborhoods are eligible for incentives.

The **Restoration Tax Abatement (RTA)** is a tax reduction program available for renovation of structures listed on the National Register of Historic Places or commercial buildings and residences located in historic or economic development districts. In Baton Rouge, qualifying districts are Beauregard Town, Spanish Town, Roseland Terrace (the Garden District), the Downtown Development District, the Port of



Greater Baton Rouge, the Metropolitan Airport, and the Center for Advanced Microstructures. Administered by the Office of Community Development, the program grants a five-year deferred assessment of the Ad Valorem property taxes assessed on improvements and renovations. The abatement does not exempt the tax assessed on the base purchase price.

In addition to the RTA, the state Division of Historic Preservation administers the **Historic Tax Credit Program**. Defined as a structure listed on the National Register of Historic Places, located in a historic district, or built and used prior to 1936, a historic property can credit 20% of the costs of renovations against federal taxes on business or rental income.

The **Enterprise Zone Program** offers a two-tier sales tax rebate and a state tax credit. A non-retail business locating or expanding in an Enterprise Zone in Baton Rouge will receive a rebate of 1.9% of the sales tax paid to the City of Baton Rouge-Parish



of East Baton Rouge for construction materials and equipment and 4% of the state sales tax. The state will also credit \$2,500 to the business's income tax for each new job created. The Planning Commission administers this program for projects located in Baton Rouge. Details are available in Information Bulletin 19, "Enterprise Zone Program".

The **Brownfields Tax Incentive Program** was created by the federal government to allow the expense for cleanup of contamination on a site to be deducted from income tax of the owner in the year it is incurred. The site must be certified by the Louisiana Department of Environmental Quality (LDEQ) as a brownfield. The Planning Commission has brownfields assessment funding from the United States Environmental Protection Agency. Further information is available through the Brownfields Resource Center at the Planning Commission office.

The **Louisiana Investor Tax Credit** is a tax incentive created by the Louisiana legislature to stimulate environmental economic development in Louisiana by encouraging the environmental investigation, cleanup, and redevelopment of the brownfield properties in Louisiana. This tax credit is jointly administered by LDEQ and the Louisiana Department of Revenue. Applicants for this tax credit must participate in the Louisiana Voluntary Remediation Program administered by LDEQ.

**State's Private Activity Bond Cap (The Bonds or Volume Cap)** are tax exempt bonds issued by private corporations or political subdivisions within the state, such as housing authorities.

Federal law establishes the four types of projects eligible for the Bonds: housing, student loans, economic development; and industrial. Louisiana established a formula that allocates 50% for housing, 20% for student loans, 20% for economic development and 10% for industrial. The principal applicant in East Baton Rouge Parish has been the East Baton Rouge Parish Mortgage Finance Authority who issues bonds for single family housing for first time, low income homebuyers. The allocation in 2000 was \$25 million.

**Potential Programs**

One of the fastest growing forms of economic incentive favored by municipalities with budget constraints and a large inventory of devalued properties is called **Tax Increment Financing (TIF)**. Instead of forgiving the taxes to be paid on value created by business investments and permitting the business to decide where to reinvest the gain, TIF diverts the funds to finance economic development in a prescribed area. By tapping into future tax revenues to be generated by the enterprise and investing them in the TIF district or project, the program creates a new source of income without interfering with existing revenue streams.

Louisiana and 43 other states have passed enabling legislation that makes Tax Increment Financing available as an economic development tool. Depending on the legal framework, TIF can be used for gap financing or short-term loans, infrastructure projects in support of development in the area, or as a direct subsidy to the business to make the project financially feasible. Baton Rouge has no legislated TIF districts at this time.

The **Economic Development Loan Fund (Section 108)** is the loan guarantee provision of the Community Development Block Grant (CDBG) program administered by the U.S. Department of Housing and Urban Development (HUD). Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large scale physical development projects. Baton Rouge receives approximately \$6 million in CDBG funds and can borrow up to five times that amount under Section 108. Any default on the loan is reimbursed through future CDBG funds.

In tandem with Section 108, the **Economic Development Initiative (EDI)** and the **Brownfields Economic Development Initiative (BEDI)** are new initiatives that provide grant funds for local governments to carry out economic development activities especially for low and moderate income persons.

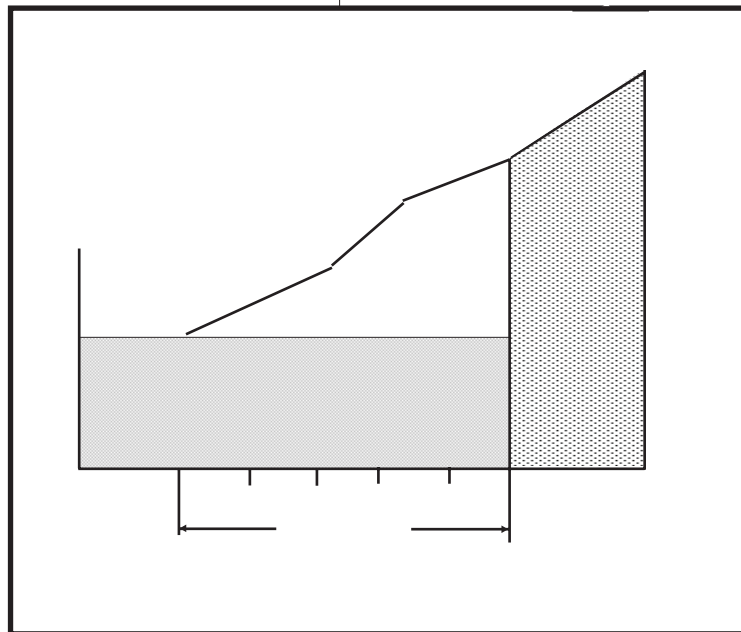
EDI and BEDI grants reduce the risk of potential future defaults on Loan Fund supported projects by increasing the probability that Section 108 funded projects will generate enough cash to repay the guaranteed loan; by directly enhancing the security of

the guaranteed loan; or through a combination of these and other risk mitigation techniques. EDI grants are available for local economic development programs and projects and BEDI grants apply to Brownfield cleanup, remediation, and redevelopment efforts.

**Leveraging Incentive Dollars**

To increase the effectiveness of economic incentives, governments have started to promote partnerships among their programs and between private and public organizations. Where a local authority's budget might

limit the scope of a project, funds from federal, state, non-governmental organizations, and private sector funds can be pooled to produce adequate financing to make the deal happen.



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