When Hurricane Katrina devastated New Orleans and much of the surrounding Gulf Coast in 2005, some of the more dire observers suggested that the blighted city might not even be worth rebuilding. "Only a sadist would insist on resurrecting this concentration of poverty, crime, and deplorable schools," wrote Slate's Jack Shafer, a week after the hurricane hit Southeast Louisiana.

"Up until now we've had the wrong type of entrepreneurs. Everyone wanted to open up a bar or a restaurant..."

Nearly seven years later, not only is New Orleans' population back on the rise, but the state is aggressively courting small businesses with generous tax credits that effectively refund up to 40% of their startup costs. While Louisiana's recovery is by no means complete — it's still one of the poorest states in the nation and New Orleans' Lower Ninth Ward remains a ghost town — a new culture of entrepreneurship is taking root not just in the Crescent City, but in other urban pockets around the state as well. "For people who want to be a part of building something, there is absolutely no better place to be," says Taylor Beery, a New Orleans native who launched his group decision-making startup, VoteIt, in March 2011, and has raised $800,000 in funding since then.

Before Katrina, "New Orleans had been in a continuous state of decline for 50 years," says Stephen Moret, secretary of economic development for the state. "Today there is this incredible renaissance," he notes. According to research from the Kauffman Foundation, entrepreneurship in the state is 46% higher than it was a decade ago, with 410 out of every 100,000 adults creating new businesses there each month. The Bayou State now ranks seventh in the nation in entrepreneurial activity, up from 24th place between 1999 and 2001.

"Up until now we've had the wrong type of entrepreneurs. Everyone wanted to open up a bar or a restaurant," notes Arman Sadeghpour, whose biotech startup, Theodent, has benefitted from the new incentives. But that's starting to change. A high-tech sector is flourishing in New Orleans, the state's filmmaking industry is now the third largest in the country (after Los Angeles and New York), and even outside-the-box startups like Sadeghpour's Theodent, which makes a toothpaste that contains a cavity-fighting chocolate extract instead of fluoride, are sprouting up. Many factors play into Louisiana's business revival, including the low cost of living and increased federal subsidies post-Katrina, but "the state tax credit is definitely one of the top reasons why you would want to start a business in Louisiana," says Chris Schultz, whose technology accelerator, Launch Pad Ignition, backs promising entrepreneurs.

According to the state's economic development office, the estimated $300 million that Louisiana spent in 2011 on tax incentives for businesses of all sizes has helped to create nearly 40,000 new jobs.

STARTING OUT IN THE BIG EASY

New Orleans in particular has become a hub for incubating new businesses. "Before Katrina, there was not an ecosystem to fund entrepreneurs," says Tim Williamson, founder of The Idea Village, a New Orleans non-profit that has provided support and helped raise more than $3.1 million in funding for 1,654 startups in the city since 2002. "Today New Orleans has one of the most vibrant, engaged networks in the country," he adds. At the group's annual Entrepreneur Week in mid-March, 58 startups vied for $325,000 in cash prizes, up from $183,000 in 2011.

While many New Orleans startups have a high-tech bent, they run the gamut from education to the environment, to you guessed

http://www.time.com/time/specials/packages/article/0,28804,2094921_2094923_2110624,00.html
it, alcohol: A winner at the 2010 Entrepreneur Week, Cordina Frozen Cocktails, which sells single-serving margaritas and daiquiris in to-go packaging, had $5 million in revenue in 2011. During this year's Entrepreneur Week, Kickboard, an online system that helps teachers evaluate students' performance and behavior, won a trip to San Francisco to meet with potential investors. SOLarchitect, makers of a web application that lets homeowners calculate the viability of installing rooftop solar panels, took home the $50,000 "Big Idea" prize, which was crowdfunded by Entrepreneur Week attendees, who also got to pick the winner.

Kickboard and SOLarchitect are among the dozens of startups that are boosting seed funding for their projects by applying for Louisiana's research and development and digital interactive media incentive programs, both of which were expanded in 2009 to attract more small businesses. Previously available only for video game makers, the digital media credits (for up to 35% of expenses) are now available for any interactive software, from a GPS application to an online training program. The research and development credit for companies with fewer than 50 employees now refunds a whopping 40% of their qualified R&D expenses and no longer requires recipients to apply for the federal tax credit for research and development — a costly and time-consuming endeavor.

Even better, as of 2009, businesses can exchange their tax credits for cash — a big plus for a startup that's not yet in the black. "It makes the money you've raised go that much further," says Ross Hinkle, founder of Liveset, which streams live concerts online. "We've raised $700,000, but that's really $900,000 after the credits, says Hinkle, who received the digital media credit in 2011. The extra funds went toward payroll, equipment and travel expenses, like the three-person team's recent trip to Austin for the South by Southwest music festival, where Liveset streamed 12 shows in 8 days.

**MOTION PICTURE MANIA MIGRATES UPSTATE**

While the digital media and small business R&D credits are just getting off the ground — the state gave out $8.2 million and $12.4 million to each, respectively, in 2011 — Louisiana's motion picture tax credit is in full swing. Now in its tenth year, the state shelled out $198.8 million in tax credits for productions big and small. About half of the 100 productions that received the credits were run by small companies like Moonbot Studios, the 36-person startup based in Shreveport, Louisiana, that won the Academy Award in February for its animated short film, The Fantastic Flying Books of Mr. Morris Lessmore. The 15-minute short film, which tells the story of a French Quarter resident's magical library of flying books, had a budget of just over $1 million. Moonbot spent the extra $250,000 refund it received from the state in tax credits to "pay my employees and pay my rent," says Lampton Enochs, Moonbot's managing director.

Whereas before Katrina, the film industry in the state was centered in New Orleans, now it is flourishing in smaller cities like Shreveport, Baton Rouge and Lafayette. "Katrina strengthened the industry by making it more statewide," says Moonbot's Enochs. That has helped science fiction television moviemaker George Kostuch of K2 Pictures + K2D run what he calls "a one-man show" in Baton Rouge that he staffs with part-time employees when his films are in production at the Celtic Media Centre there. "We count on the tax credit money as the budget on the post-production on our film," says Kostuch, who factors the credits into the total budget for each film. His most recent movie, Jules Verne's Mysterious Island, got 2.4 million viewers when it debuted in February on the Syfy channel, making
it the sixth most-viewed original film on the channel ever. Of the $2.2 million that Kostuch says he spent to make three movies in 2011, including Mysterious Island, he got $500,000 back from the state in tax credits, which the state then refunded for cash.

SEND IN THE ANGELS
Since one of the biggest hurdles for any startup is raising money in the first place, last summer Louisiana reinstated a tax credit program that benefits investors directly. Signed into law by Gov. Bobby Jindal in July 2011, the Angel Investor Tax Credit refunds investors in companies with less than 50 employees and sales of less than $10 million up to 35% of their total investment spread out over a five-year period after the investment is made. The $5 million in Angel Investor Tax credits were snapped up within days after applications were first accepted at the beginning of the year. Theodent founder Arman Sadeghpour says the credit for his investors helps them feel like they are getting a return on their investment even though he doesn't expect his company to turn a profit until 2016. "Every year the investors get this little lagniappe from the tax credit. They are actually getting a return," says Sadeghpour.

What remains to be seen, however, is whether Louisiana can achieve its ultimate goal of sustainable economic growth as a result of the incentives. After all, there's nothing to stop a startup from pocketing Louisiana tax credits one year, then moving to another state that gives them a sweeter offer the next year. "The worry that people including myself have about tax credits is that it creates incentives to do something that wouldn't otherwise happen," notes Harvard Business School economist Josh Lerner, who adds, "It smacks of corporate welfare."

While Louisiana's massive film industry is now on such solid ground that it is known as "Hollywood South," it's too soon to know whether the newer startup efforts funded by taxpayer money (in a state where 18% of the population still lives in poverty) will be as successful. "We are all bound by the fact that nothing's come easy here," says VoteIt founder Beery. But for entrepreneurs looking for an energized community to call home, Louisiana has never been a better place to get started.

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