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## Session 2: Economic development trends from the previous and current recession

# What can we learn from the Great Recession?

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# Lessons from the Great Recession



● Policymakers faced tremendous pressure to act to weather and dig out of the Great Recession

● Many states turned to tax incentives to do the job

● How did that work out?

# Research goals



What went wrong? What went well?

How can states protect themselves from unintended consequences if they choose incentives now?

What role can evaluations play to improve policy?

# State examples

## *Incentive expansion and targeting*



### Colorado: Enterprise Zone Tax Expenditures

- Job creation, business expansion and attraction
- Zones expanded from 30 to 70% of state by 2011
- Estimated cost of \$133,000 per job in 2010

### Illinois: EDGE Credits

- Business expansion and attraction—\$1.5 billion awarded since 1999
- Awards jumped in response to the recession: retained jobs source of concern
- Between 2009 and 2013, 43,000 “retained”, only 17,000 “new”

### Maine: Pine Tree Development Zone Program

- Encouraging economic development in distressed areas
- 2009/2010 changes: rendered most of state eligible
- Per OPEGA, 67% PTDZ ETIF expansion in lower unemployment areas of state

# State examples

## *Curtailing incentives to plug budget gaps*



### California: limits against tax liability

- 2008-10: credits only make up 50% of business tax liability
- Foregone revenue estimated at \$900 million in FY 2009, \$414 million in FY 2010

### Hawaii: full-stop on exemptions

- Suspended use of nearly two-dozen exemptions from 2011-13
- Expected to raise \$400 million of \$1.3 billion deficit

# State examples

## *New incentives with future cost implications*



### **Kentucky: incentives force more budget cuts**

- 2009: slate of new incentives enacted amidst \$1 billion budget shortfall
- Foregone revenue estimated at \$40 million in FY 2010, \$60 in FY 2011
- Governor: incentives will increase budget cuts

### **New Jersey: 2013 Economic Opportunity Act**

- To create/retain jobs, support development
- 2013-2017: authorized \$5 billion in incentives with up to 20-year life
- 2000-2009 programs smaller (\$1.2 billion) and less per job (\$80,000 per job for Grow NJ/ERG versus \$16,000 per job)

# Key takeaways



Evaluations can help remind policymakers of original program goals

Without accurate information, pausing incentives may not help states reclaim needed revenue

Without fiscal protections, creating new incentives during a recession can open states up to significant future costs

# Final thoughts

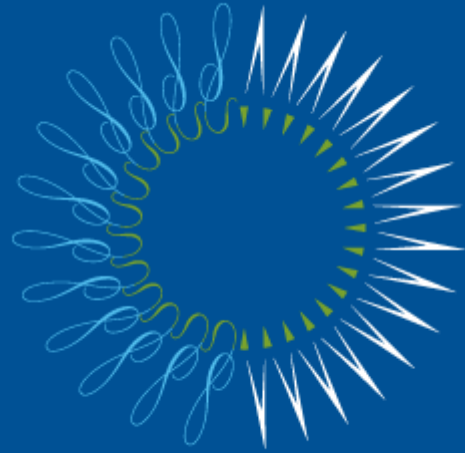


Few states rigorously evaluated incentives entering the Great Recession

Now, policymakers have access to high-quality evaluations

We hope this research encourages lawmakers to continue to use evaluations to inform the design of their programs





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Thank you!

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# Economic Development Tax Incentives Evaluators Roundtable

*October 27, 2020*

# Agenda

- SEDE Network and State EDO Roles
- Covid impact on Businesses
- How EDOs are Adapting Incentive Programs
- Implications for Evaluations
- Resources



Many thanks to Ellen Harpel (SmartIncentives) and Ken Poole (CREC) for their recent work that provides the basis for this presentation

# SEDE and State EDOs

- The State Economic Development Executives (SEDE) Network
  - Forum for state economic development leaders to exchange information, learn from one another, and advance the practice and impact of economic development across the nation
- States playing same roles we see during "normal" times
  - Linking and leveraging assets, resources
  - Providing guidance and coordination
  - Serving as convenor, match-maker, funder
- Progression of actions over time (March-Oct), filling gaps before and after CARES Act resources

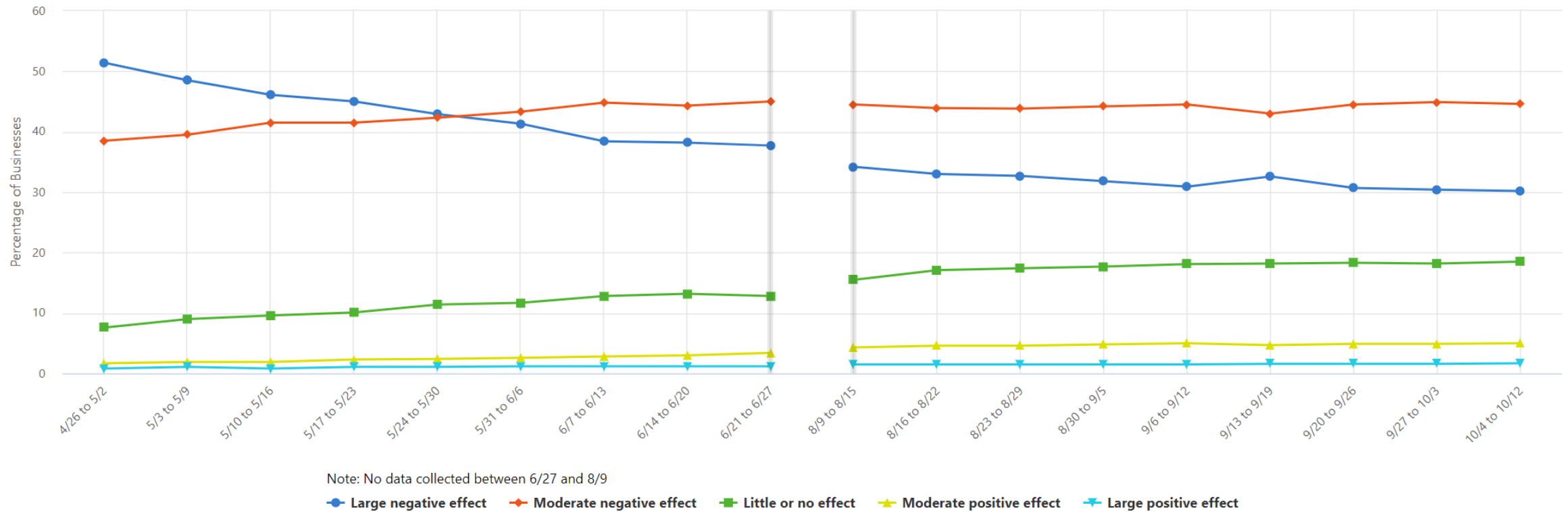
# Covid Impact on Businesses

- **Census Small Business Pulse Surveys** -- collaborating with five other federal agencies <https://portal.census.gov/pulse/data/>
- Surveyed weekly April 26 – June 27, then Aug 9 – Oct 12; data released weekly
- Survey results by sector and state and for 50 most populous MSAs:
  - location closings
  - changes in employment
  - disruptions in the supply chain
  - use of federal assistance programs
  - expectations concerning future operations

# Overall Effect

Overall, how has this business been affected by the Coronavirus pandemic?

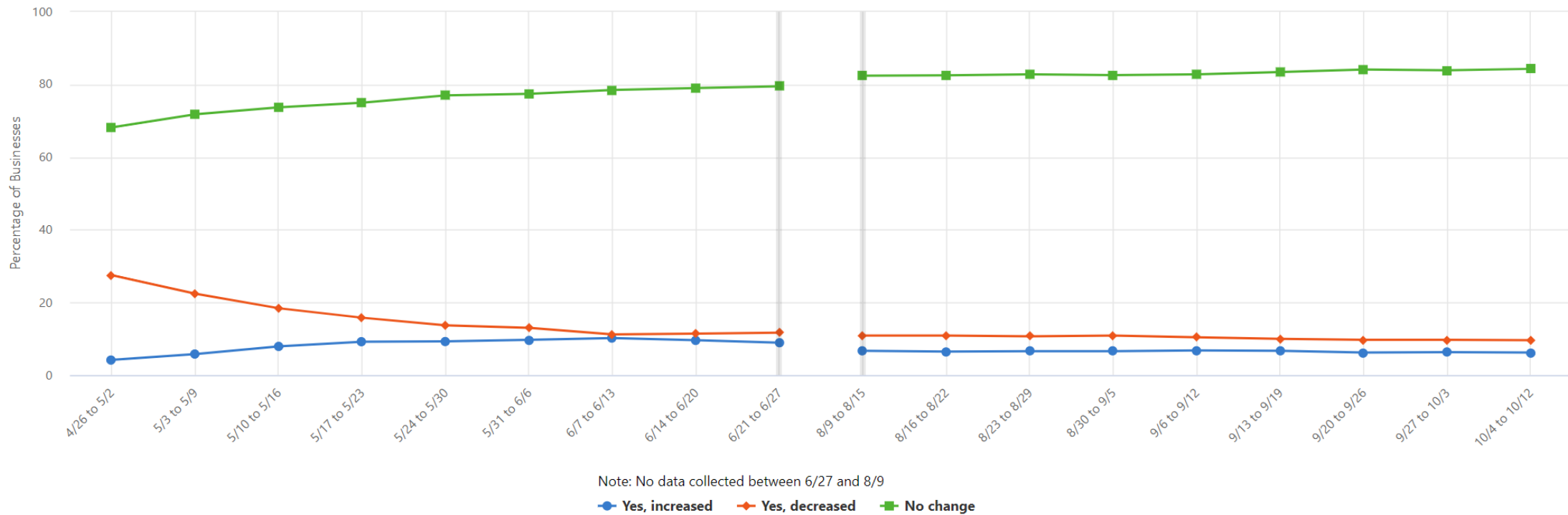
National Average



# Changes in Employees

In the last week, did this business have a change in the number of paid employees?

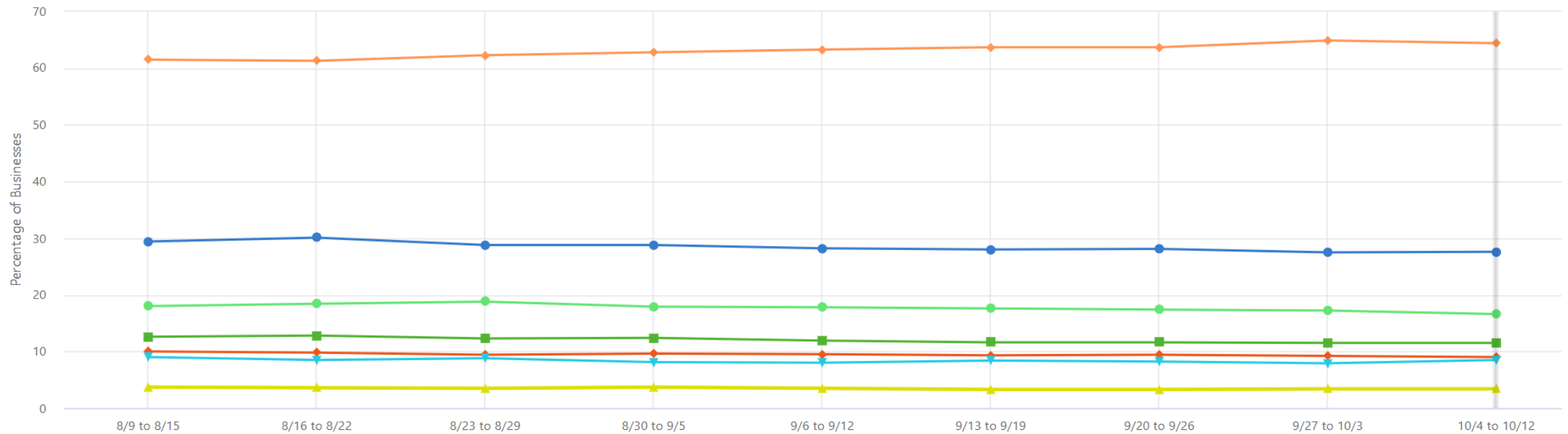
National Average



# Delays/Difficulties

In the last week, did this business have any of the following?

National Average



Note: No data collected between 6/27 and 8/9

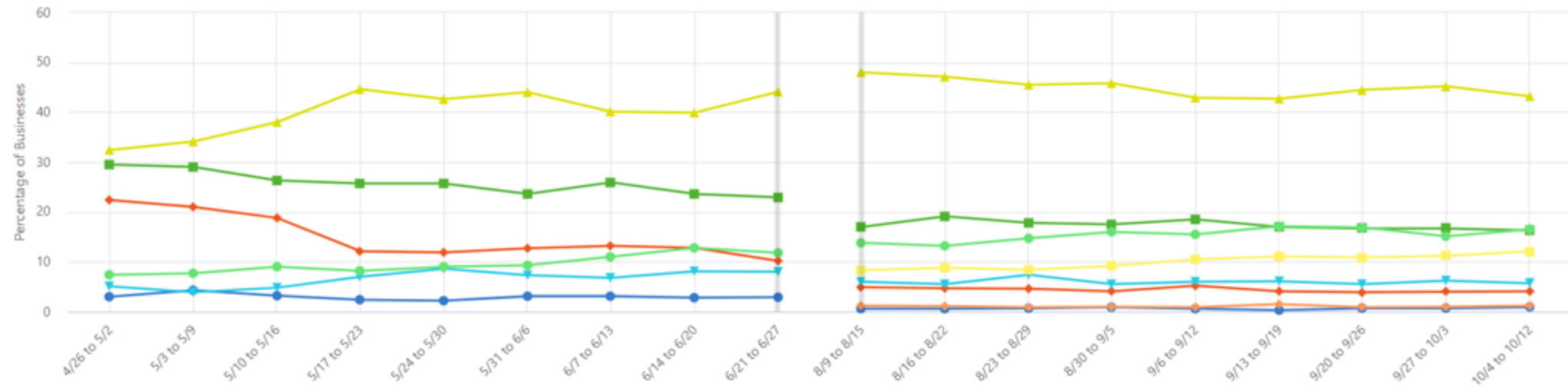
- Domestic supplier delays
- ◆ Foreign supplier delays
- Difficulty locating alternate domestic suppliers
- ▲ Difficulty locating alternate foreign suppliers
- ◆ Production delays at this business
- Delays in delivery / shipping to customers
- ◆ None of the above



# Time to achieve normal operations (manufacturers' change in attitudes)

In your opinion, how much time do you think will pass before this business returns to its normal level of operations relative to one year ago?

Sector 31 Average (Manufacturing)



Note: No data collected between 6/27 and 8/9

- 1 month or less
- 4-6 months
- ▼ I do not believe this business will return to its normal level of operations.
- ◆ This business has permanently closed. (only available in phase 2)

- ◆ 2-3 months
- ▲ More than 6 months
- There has been little or no effect on this business's normal level of operations.
- This business has returned to its normal level of operations. (only available in phase 2)

# How EDOs are Adapting Incentive Programs

## Guiding Principles for Existing and New Incentive Programs

- Changes in incentive programs should reflect changes in economic development priorities
- Adjust terms constructively to assist moving forward / Realistic expectations on both sides
- Economic development ROI should incorporate social, economic, and fiscal benefits
- Transparency and consistency re changes in priorities, policies, processes

# Implications for Evaluations

Adjustments to agreements, programs, and operations

Demand for increased accountability

More complicated project reporting and program evaluation procedures

Some considerations:

- Outcomes
- Process
- Reporting

# Resources: Incentives

- Discretionary existing agreements
  - <https://smartincentives.org/adjusting-incentive-performance-agreements/>
- New agreements
  - <https://smartincentives.org/adjusting-incentives-to-support-small-business-recovery/>
- Implications for Evaluation
  - [Incentive Adjustments – Implications for Reporting and Evaluation](#). Guidance on Documenting Incentive Program Changes

# Resources: State Activities

- SEDE network resources <https://www.stateeconomicdevelopment.org/covid-19/>
- "State Economic Development Officials Collaborate to Counter the Pandemic's Impact:" [article](#) by Jeff Chapman & Alison Wakefield (Pew Charitable Trusts)
- National Governors Association COVID-19 State and Territory [Action Tracker](#)
- National Conference of State Legislatures / [State Actions](#) on Coronavirus Relief Funds
- Council of Development Finance Agencies Covid-19 [resource center](#)
- [MEP National Network: Meeting the Challenge](#)