

Economic Development Incentives: What Works?

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STATE AND LOCAL TAXATION

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About us

Smart Incentives helps communities make sound decisions throughout the incentives process

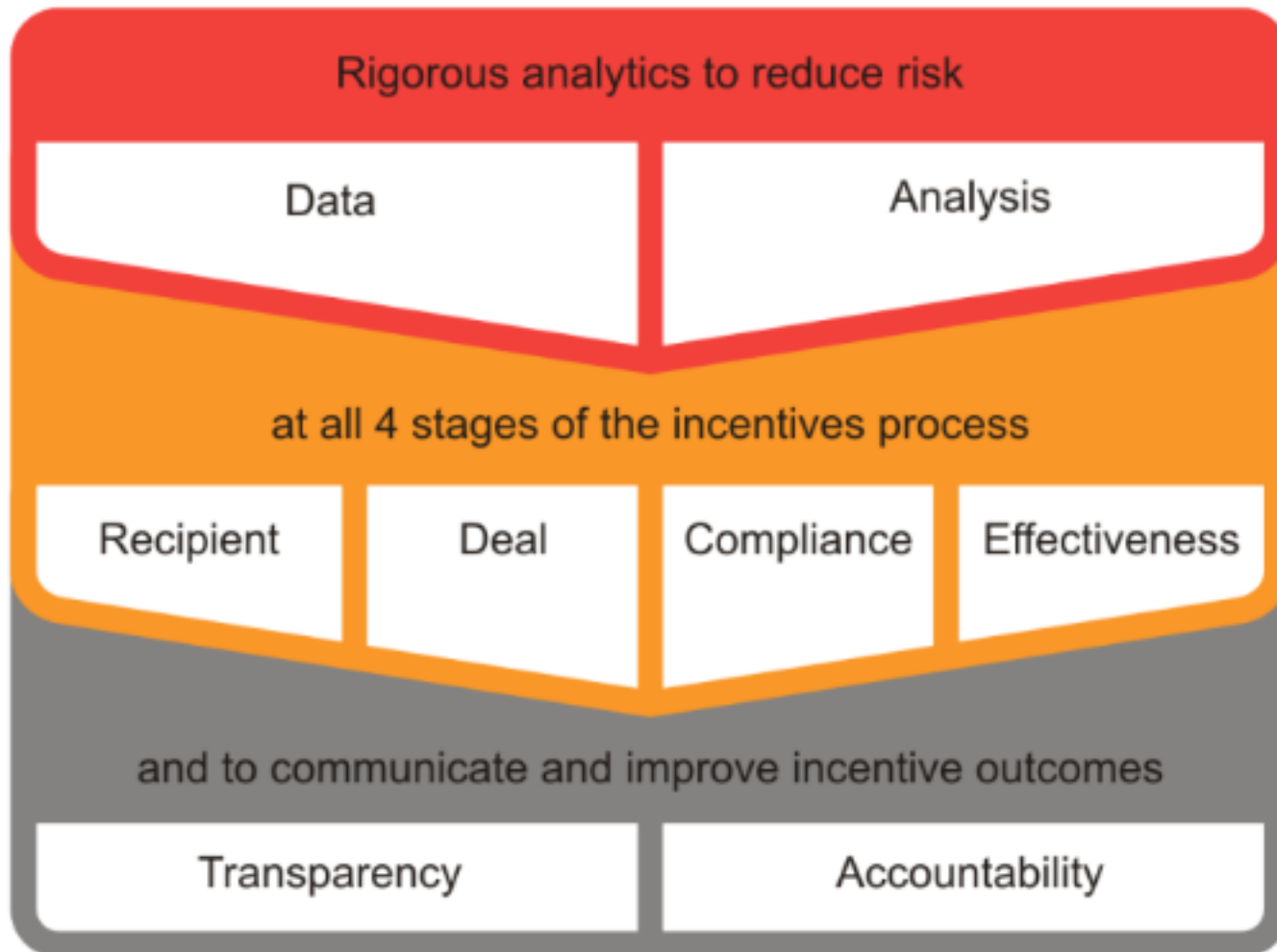
- ü Analyze incentive offerings and program design
- ü Apply the Smart Incentives 4x4 framework for program management
- ü Offer access to high-quality business intelligence, data, and analytical methods to guide decisions
- ü Improve evaluations and reporting on program results

Why do we use incentives?

To achieve our community's economic development goals

- Jobs
- Worker training
- Business development
- Investment
- Downtown revitalization
- Brownfield redevelopment
- Quality of life and quality of place
- Strengthen tax base

Incentives are not just about winning a deal. Smart incentive use is always connected to a larger economic development strategy.



Lessons from Amazon HQ2

Invest in the community, not just the company

Incentives alone do not carry the day.

Education, infrastructure and housing create a competitive environment.

Incentives should not shortchange these investments.

The best incentive offers include investments that benefit both residents and the business.



In Virginia related to HQ2:

- \$195 million in state-funded infrastructure improvements
- \$50 million for K-12 tech education
- \$375 million for a new Virginia Tech Innovation Campus and new master's degree programs in computer science and related fields

Be realistic about costs as well as benefits

Projecting a positive economic impact may no longer be sufficient.

Who will benefit?

Will some residents feel negative effects from construction? In the housing market? Worsening congestion?



Always be engaging

Don't wait until a big project comes along to talk about your strategy.

Follow your own rules.

Build new coalitions.

Use multiple online and in-person methods.

Make information easy to find.

Report regularly on outcomes.



"The promise of new jobs and more money isn't appealing to working class folks who know they've been shut out of this process entirely, not just now but for decades before."

Lena Afridi, Association for Neighborhood and Housing Development
Quoted in ["The war against Amazon."](#) [Fast Company](#), [2/15/19](#)

Program Design & Administration

Companies are seeking well-designed incentive programs that work for both the business and the community to drive long-term, mutually beneficial economic development projects.

Program Design Elements



Clear and measurable goals



Pay for performance



Caps on outlays



Tax credits versus grants



Build in reporting mechanisms

What do legislators want to know?

How much are we spending?

Who is receiving incentives?

What happened as a result of the incentive spending?

Are these the right questions?

Reporting considerations

- Individual recipient versus aggregate reporting
- Just the facts or analysis
- Context

Usable/user-friendly information

States lack an industry standard to guide incentive reporting. Should there be one?

Example 1: Texas – Disbursements and Clawbacks

Company	Location	Industry	Direct Jobs	Capital Investment*	TEF Award Offer*	Amount Disbursed to Date		Liquidated Damages (Clawbacks)	Other Repayments	Date Announced
						Amount	Date			
FY2014 - FY2015 TEF PROJECTS >>			10,437	\$ 4,754,991,552	\$ 78,940,888	\$ 52,058,000		\$ 1,143,036	\$ 1,641,558	
USAA	Plano	Insurance	660	\$ 31,400,000	\$ 1,000,000	\$ 1,000,000	11/2013		\$ 1,031,280	9/2013
athenshealth	Austin	Software	607	\$ 13,000,000	\$ 5,000,000	\$ 1,500,000	2/2014	\$ 22,570		1/2014
ForcePoint LLC (formerly Websense)	Austin	Software	445	\$ 8,900,000	\$ 4,500,000	\$ 1,500,000	8/2017			2/2014
ForcePoint LLC (formerly Websense)	Austin	Software	445	\$ 8,900,000	\$ 4,500,000	\$ 4,500,000	12/2015			2/2014
Natgasoline	Beaumont	Chemical Mfg.	240	\$ 1,800,000,000	\$ 1,425,000	\$ 725,000	8/2018	\$ 65,358		11/2013
Natgasoline	Beaumont	Chemical Mfg.	240	\$ 1,800,000,000	\$ 1,425,000	\$ 700,000	2/2017			11/2013
Oracle	Austin	Software	200	\$ 5,385,000	\$ 1,000,000	\$ 1,000,000	8/2018			11/2013
Dropbox	Austin	Software	170	\$ 5,500,000	\$ 900,000	\$ 500,000	3/2014	\$ 234,894	\$ 197,847	2/2014
Prudential Insurance and HGS	El Paso	Call Center and BPO	300	\$ 6,077,038	\$ -					4/2014
Maverick Arms	Eagle Pass	Sporting Goods Mfg.	90	\$ 3,400,000	\$ 75,000	\$ 75,000	4/2014		\$ 78,521	6/2014
Toyota Motor North America, Inc.	Plano	Automotive HQ Relocation	3,650	\$ 345,000,000	\$ 40,000,000	\$ 8,000,000	8/2014			4/2014
Toyota Motor North America, Inc.	Plano	Automotive HQ Relocation	3,650	\$ 345,000,000	\$ 40,000,000	\$ 8,000,000	8/2017			4/2014
Toyota Motor North America, Inc.	Plano	Automotive HQ Relocation	3,650	\$ 345,000,000	\$ 40,000,000	\$ 15,000,000	8/2018			4/2014
ACTIVE Network LLC	Dallas	IT Services	1,000	\$ 13,000,000	\$ 8,800,000	\$ 2,580,000	4/2014	\$ 628,235		7/2014
ACTIVE Network LLC	Dallas	IT Services	1,000	\$ 13,000,000	\$ 8,800,000	\$ 250,000	8/2014			7/2014
Schneider Electric USA	El Paso	Electrical Equipment Mfg.	160	\$ 7,000,000	\$ 750,000	\$ 250,000	8/2018			7/2014
Schneider Electric USA	El Paso	Electrical Equipment Mfg.	160	\$ 7,000,000	\$ 750,000	\$ 250,000	11/2017			7/2014
OmniTracs LLC	Dallas	IT Services	450	\$ 10,000,000	\$ 3,900,000	\$ 1,850,000	1/2015			7/2014
Space Exploration Technologies	Brownsville	Space Vehicle Mfg.	300	\$ 85,098,750	\$ 400,000	\$ 400,000	1/2015	\$ 50,383	\$ 334,130	07/2014
Charles Schwab Corporation	Austin	Financial Services	623	\$ 210,852,890	\$ 4,500,000	\$ 1,500,000	5/2018			07/2014
Charles Schwab and Co. Inc.	El Paso	Financial Services- BPO	445	\$ 21,568,574	\$ 1,450,000	\$ 350,000	8/2014			7/2014
Cerealis Seguin (Kra Sim Group)	Seguin	Food Products Mfg.	212	\$ 56,500,000	\$ -					11/2014
Comgen OSB LLC	Polk County	Wood Product Mfg.	165	\$ 262,000,000	\$ 1,140,000	\$ 380,000	3/2017	\$ 101,625		2/2015
BASF	Freeport	Chemical Mfg.	163	\$ 1,750,000,000	\$ -					3/2015
Kubota Tractor Corporation	Grapevine	Agricultural Machinery Mfg.	344	\$ 57,000,000	\$ 3,800,000	\$ 640,000	8/2018			5/2015

Source: Texas Enterprise Fund, TEF Listing as of 12/31/18, Office of the Governor

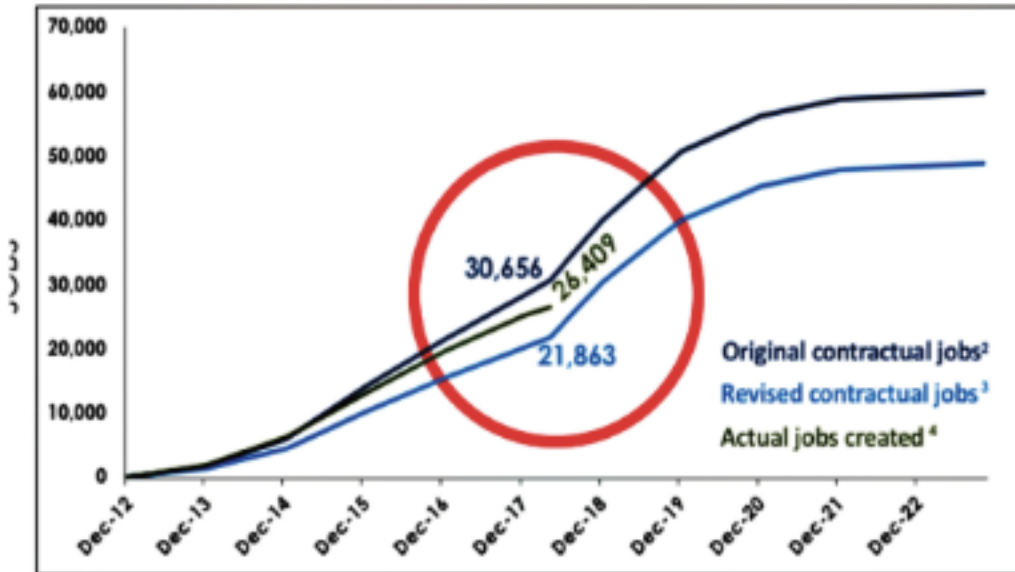
MBDP EFFECTIVENESS

86% OF JOBS ORIGINALLY COMMITTED TO BE CREATED ARE VERIFIED AS CREATED¹

\$7,434 COST PER JOB

TO DATE, COMPANIES HAVE CREATED **26,409** VERIFIED JOBS

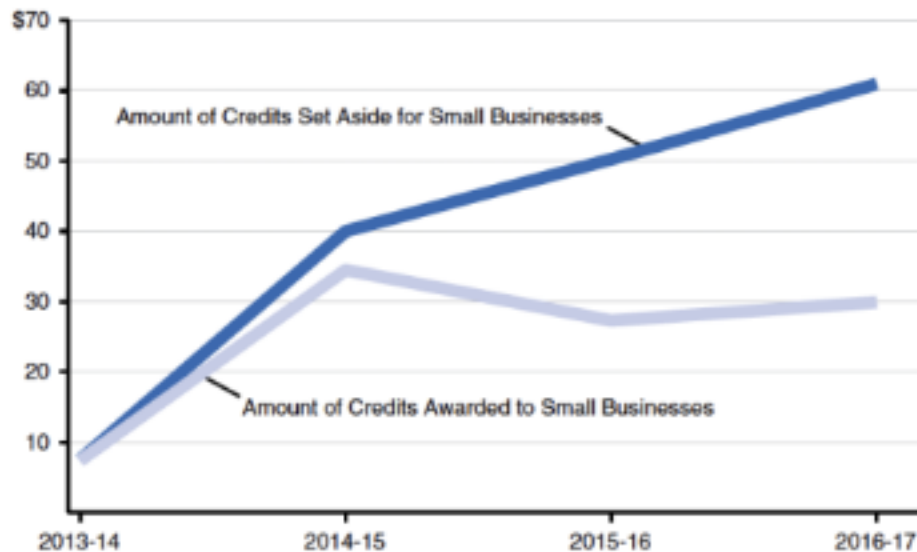
Example 2:
Michigan –
Original,
Revised, and
Actual Jobs



Source: MEDC FY2018 Annual Report

Figure 6

**Small Businesses^a
Not Fully Utilizing California Competes Set Aside**



^a "Small business" must have gross annual revenues below \$2 million.

Example 3 – California Small Business Participation

Source: Review of the California Competes Tax Credit, Legislative Analyst's Office, 2017

Additional topics for discussion

Compacts

The “but for” conundrum

Cost-benefit analysis details

Economic outcomes vs fiscal outcomes

Defining goals

Selecting program metrics

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