Economic Development Incentives: What Works?

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NCSL EXECUTIVE COMMITTEE TASK FORCE ON STATE AND LOCAL TAXATION

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About us

Smart Incentives helps communities make sound decisions throughout the incentives process

- Analyze incentive offerings and program design
- Apply the Smart Incentives 4x4 framework for program management
- Offer access to high-quality business intelligence, data, and analytical methods to guide decisions
- 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.
Rigorous analytics to reduce risk

Data
Analysis

at all 4 stages of the incentives process

Recipient
Deal
Compliance
Effectiveness

and to communicate and improve incentive outcomes

Transparency
Accountability
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

<table>
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<tr>
<th>Company</th>
<th>Location</th>
<th>Industry</th>
<th>Direct Jobs</th>
<th>Capital Investment 1</th>
<th>TEF Award Offer 2</th>
<th>Amount Disbursed to Date</th>
<th>Liquidated Damages (Clawbacks)</th>
<th>Other Repayments</th>
<th>Date Announced</th>
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Source: Texas Enterprise Fund, TEF Listing as of 12/31/18, Office of the Governor
Example 2: Michigan – Original, Revised, and Actual Jobs

Source: MEDC FY2018 Annual Report
Figure 6
Small Businesses\textsuperscript{a}
Not Fully Utilizing California Competes Set Aside

Example 3 – California Small Business Participation

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

\textsuperscript{a} “Small business” must have gross annual revenues below $2 million.
Additional topics for discussion

Comacts
The “but for” conundrum
Cost-benefit analysis details
Economic outcomes vs fiscal outcomes
Defining goals
Selecting program metrics
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