

Incentives and Economic Development Policy

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NACCTFO COURSE – WASHINGTON, DC

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Agenda

QUESTIONS ENCOURAGED: Exploring incentives in real life

WHY we use incentives

HOW we use incentives

ROUNDTABLES: A project comes your way . . .

WAYS to manage incentives

DISCUSSION: Financial transparency

What questions do you have about incentives?

Are there specific economic development topics you would like to discuss today?

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

Exploring Incentives

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.

Data Centers

Loudoun County, VA

10 million SF of data centers operational + 4m under development

Local incentives: 6% sales and use tax exemption on equipment and Fast Track

A “disproportionate amount of property tax revenue”



High Tech Companies

Washington, DC

For qualifying high tech activities that employ at least 2 individuals

Local incentives: 0 or reduced corporate income tax, new hire wage credit, sales tax exemptions, personal property tax exemption, freeze on real property assessed value

Attract companies to lower the vacancy rate; bring tech talent to DC



Grocery Store

Prince George's County,
MD

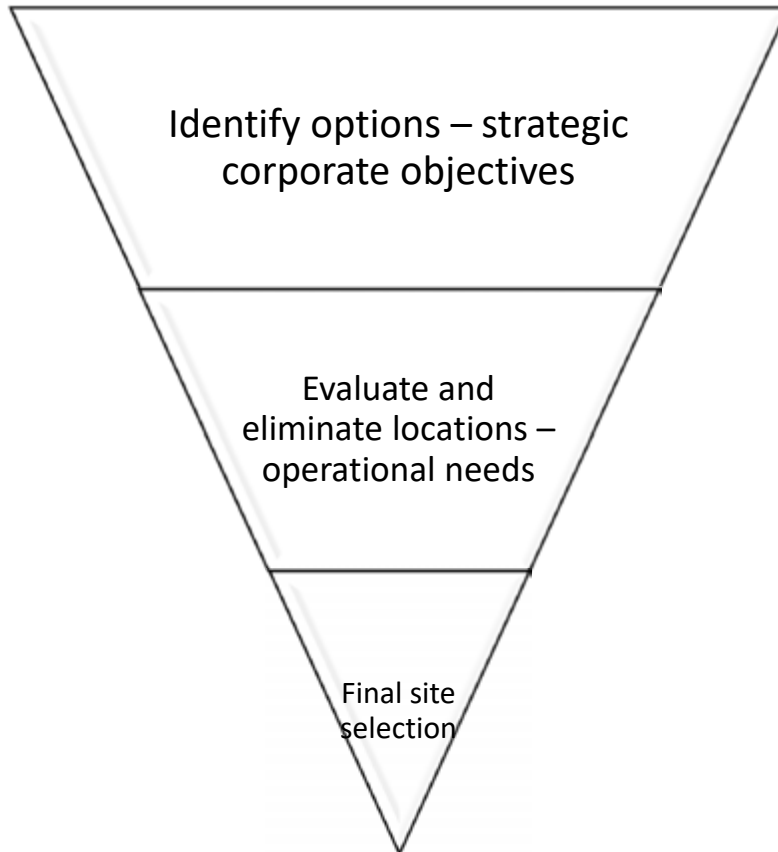
Replace closed grocery stores and eliminate a food desert

Local incentives: tax credits, loan, and funds for a feasibility study

Provide better access to healthy food plus local hires and worker training with a nonprofit grocer.



Site selection and incentives



First tier:

- Labor availability & costs
- Market demand & access
- Logistics & transportation
- Suitable land & real estate

Second tier:

- Economics, tax & incentives
- Business climate
- Energy availability & cost
- Quality of life

Incentives are used to maximize opportunity and minimize risk.

Source: Smart Incentives, JLL

Nestle USA HQ

Relocate US HQ to
Arlington, VA from CA

\$10 m state incentives +
training & recruitment
assistance

\$6 m local incentives
including performance
grant and infrastructure
improvements

“Soft incentives” around
talent/role of the BID



Incentives are part of a community's financing toolkit

Special assessment districts and tax increment financing (TIF)

“Targeted tools to catalyze investment and transform the real estate values of a geographic area”

Typically focused on three uses:

- Infrastructure improvements
- Site preparation
- Facility/amenity construction

Sagamore Development

200 acre redevelopment
project in Baltimore, MD;
new Under Armour HQ

Anticipate \$4 billion in
total investment and
70,000 jobs over 40 years

\$1.1 billion local, state
and federal support
requested

\$535 m TIF from City of
Baltimore

Community benefits
agreement



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.

Source: JLL

How do we use incentives?

A working definition of incentives:

- Tools to influence business decisions in order to spur the growth of companies and jobs in specific locations
- Taxpayer-financed programs that support individual businesses

Development finance:

- Fostering job creation and economic growth through the use of tax-exempt and other public-private partnership finance programs

Blurred lines between the two categories

Incentive classifications

Categories

- Business financing
- Community oriented
- Tax related

Types

- Bonds
- Grants
- Investments
- Loans
- Tax abatements

Business need

- Capital access
- Facility/site location
- Infrastructure
- Marketing
- Product/process/technology development
- Workforce

Discretionary & non-discretionary

Targeted (or not) by industry or geography

Source: C2ER and Smart Incentives

Tax vs. non-tax incentives

Non-tax Incentives

- Grant
- Direct loan
- Loan guarantee
- Equity investment
- Collateral support
- Subsidized loan loss reserves
- Loan participation
- Preferential interest rate

56%

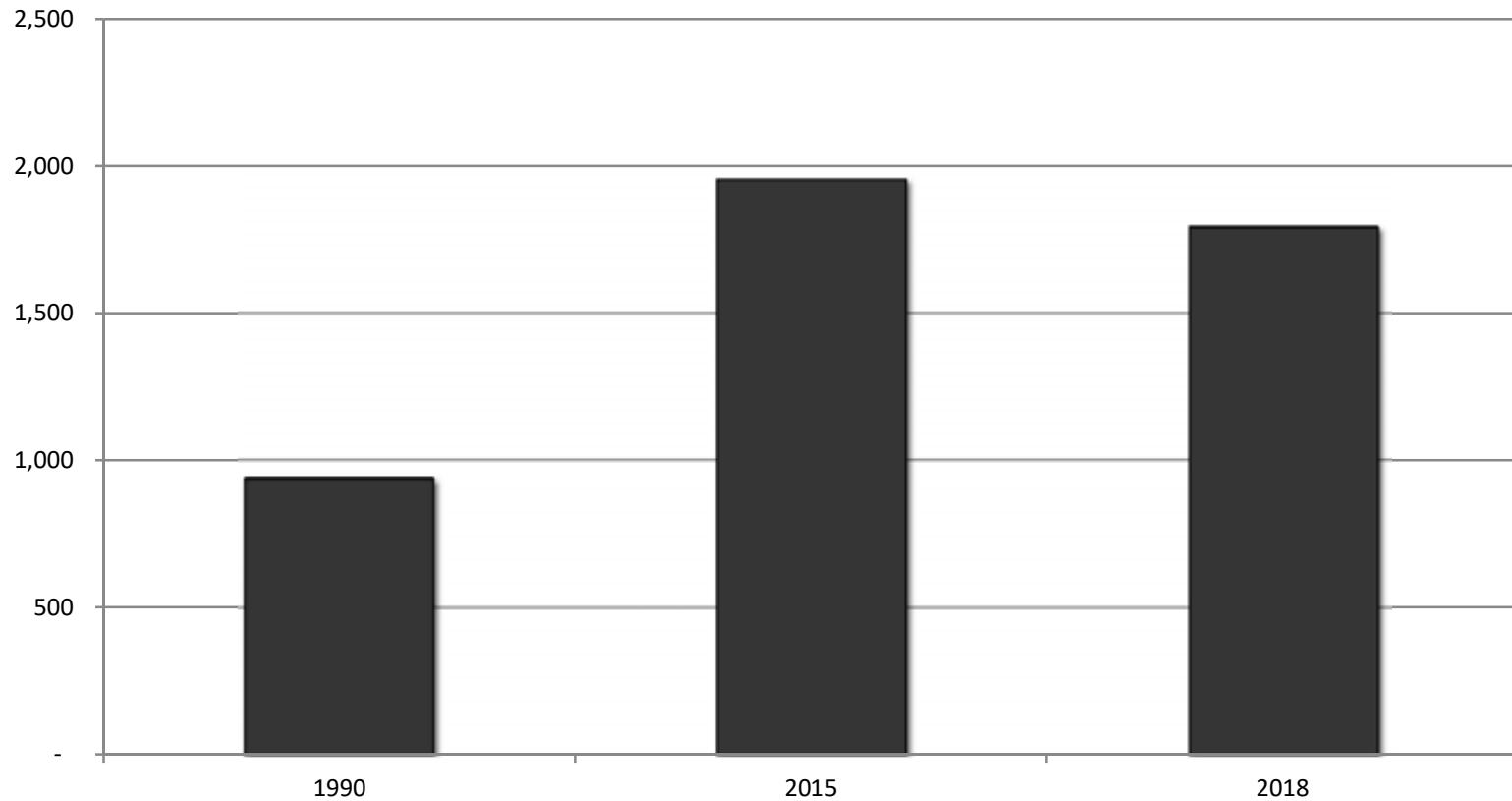
Tax Incentives

- Tax abatement
- Tax credit
- Tax deduction
- Tax deferral
- Tax exemption
- Tax refund or rebate
- Tax-exempt industrial revenue bond

44%

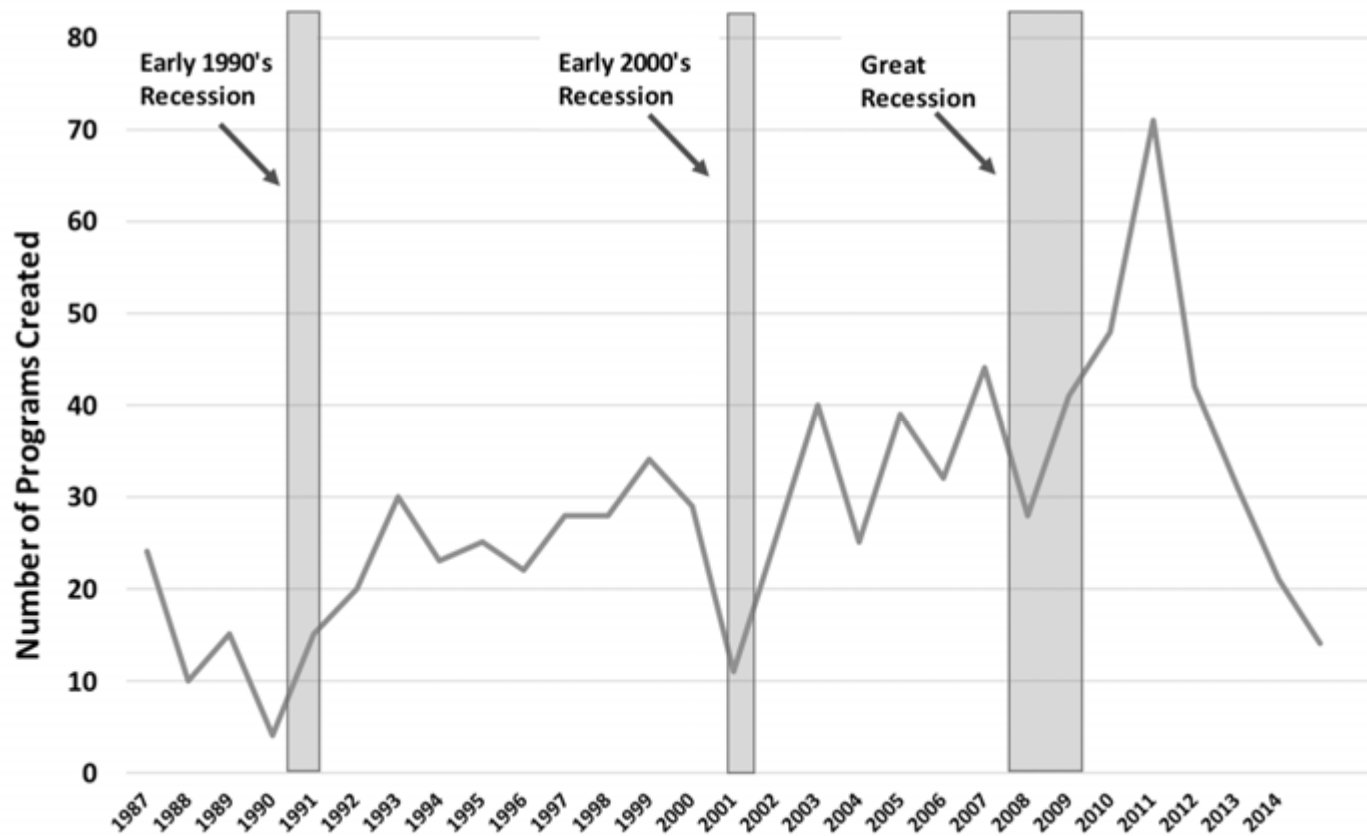
Source: C2ER

Number of state incentive programs



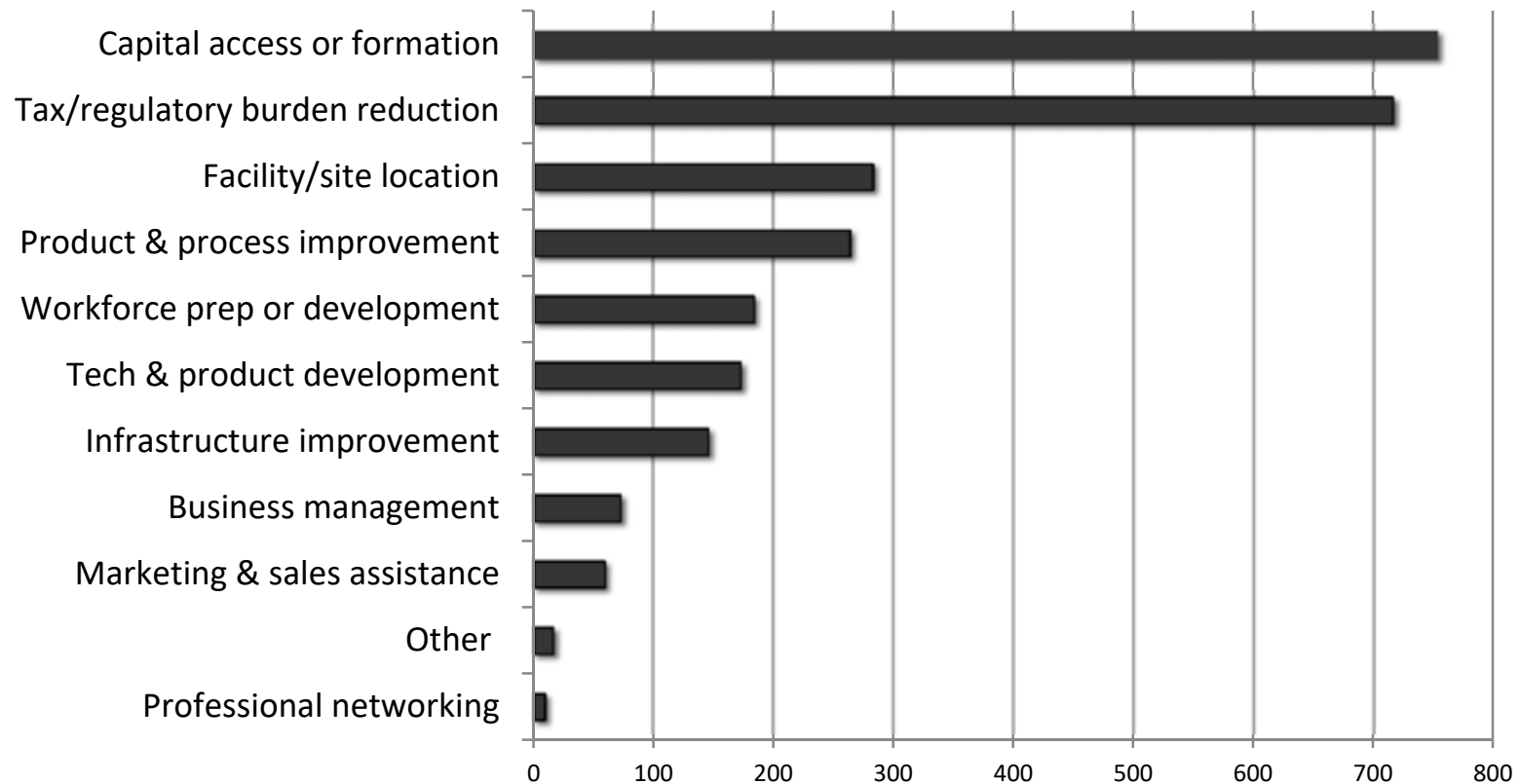
Source: C2ER

State programs created



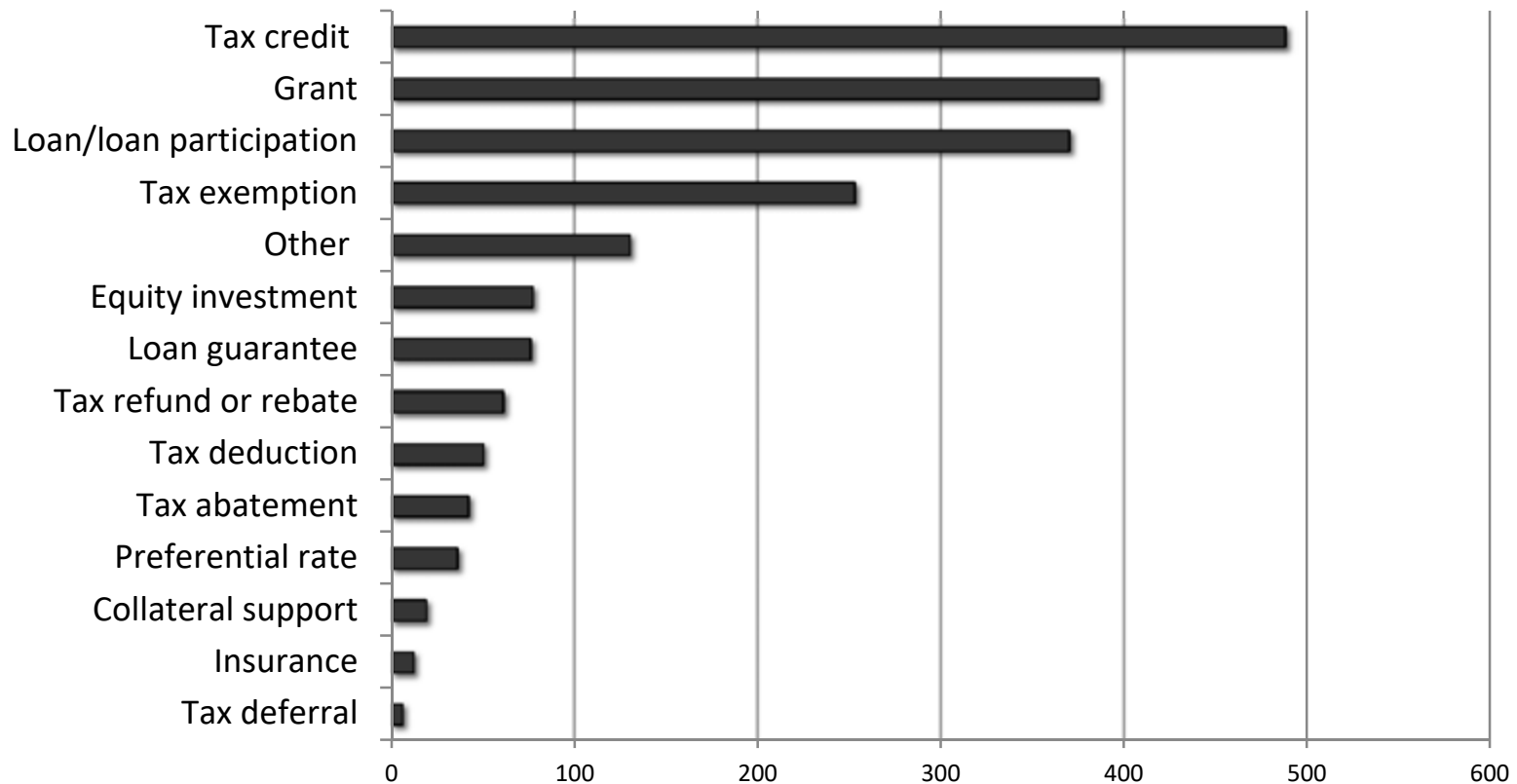
Source: C2ER

State incentive programs by policy goal



Source: C2ER

State incentives by program type



Source: C2ER

Local incentives

No single source of information on local incentives

Highly varied across locations

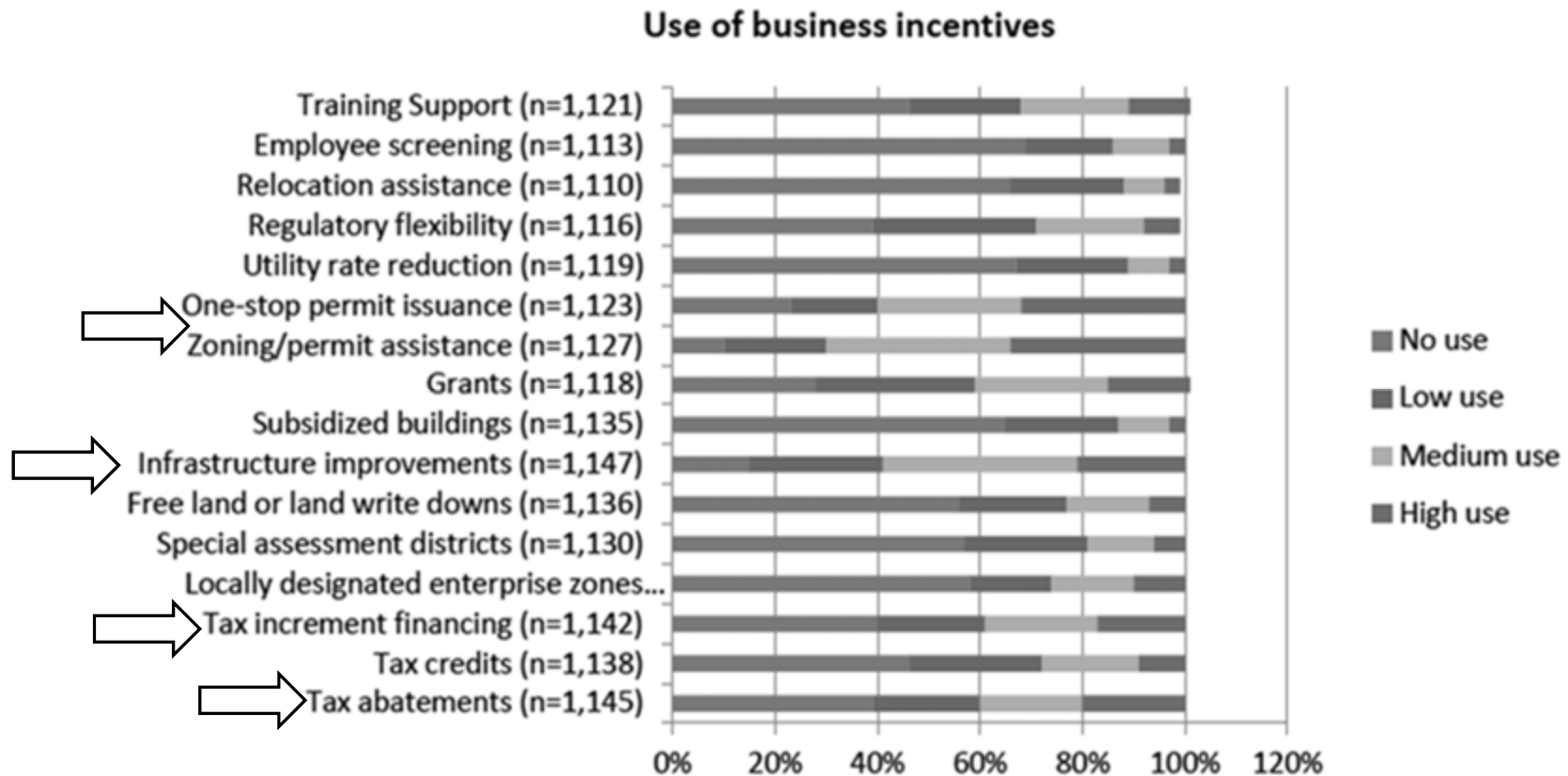
- Incentives are often real estate- or neighborhood-based . . .
- . . . But also includes assistance to businesses

Key differentiator at local level: **focus on expanding the tax base**

Land and building cost/availability and capital access/funding are perceived as the main barriers to economic development at the local level

Increasing use of local incentive funds

Local use of business incentives



Source: ICMA Economic Development Survey 2014

Toyota- Mazda

Huntsville, AL

\$1.6b auto plant, up to
4,000 jobs

\$800m state and local
incentive package

\$320m + local incentives
from multiple
governments: tax
abatements, project site,
infrastructure, fee waivers

TIF to finance site
improvements



Trend 1: Incentive programs ⇨ Investment partnerships

Incentive use has evolved from a deal-winning tool to a deeper financial engagement with businesses

Incentives are no longer reserved for special, targeted projects.

Entities of all types and sizes increasingly expect some type of incentive.

Incentives are part of the financing mix for many businesses.

Governments are taking on more financial responsibilities associated with major new investments, especially regarding workforce, infrastructure and site development.

Hankook Tire

New manufacturing
facility in Clarksville, TN
with 1800 jobs

\$150.6m incentive
package, including
training

Local incentives include
469 acres of land (free)
with infrastructure, 20
year property tax
abatement

“Soft incentives” around
Korean Cultural Program



Trend 2: Demand for transparency and accountability

Be prepared for scrutiny

Set up your program so you can answer citizen questions

Critical elements are:

- Good upfront due diligence
- Financial and economic analysis of the deal
- Performance agreements with milestones
- Monitoring compliance
- Reporting on results

Foxconn

Proposed WI campus with
up to 13,000 jobs

\$3b state incentive
package

\$764m local incentives:
will include land, annual
payments to Foxconn,
utilities and infrastructure,
workforce development

www.foxconnracinecounty.com/revised

www.wisconnvalley.wi.gov



Roundtable Discussion

A PROJECT COMES YOUR WAY . . .

At your table, brainstorm to create a list of questions:

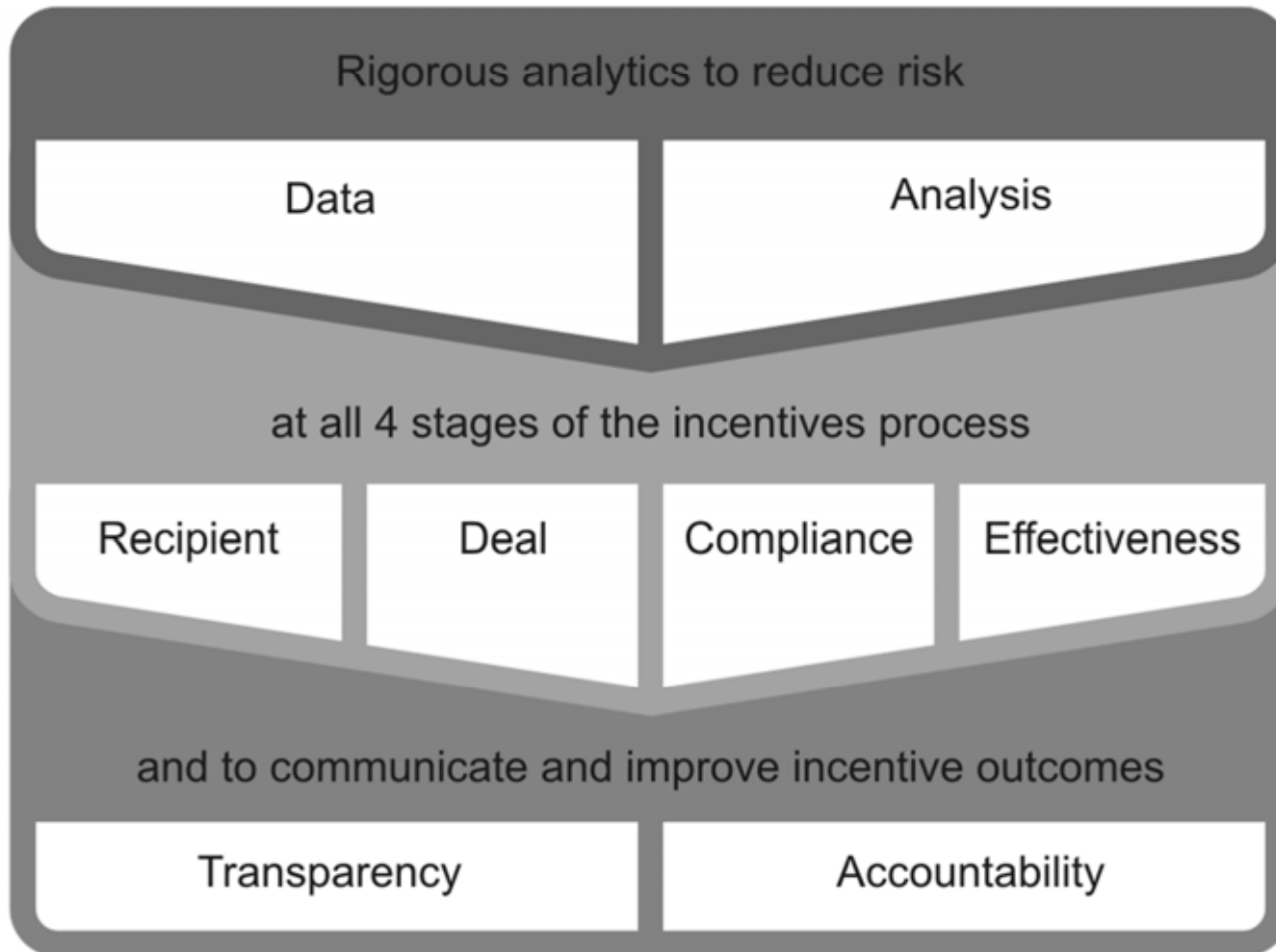
1. To ask a company when considering offering them an incentive
2. To ask an incentive recipient as the project proceeds

Discuss. Select the best two from each category to share with the group.

Managing Incentives



SMART INCENTIVES



Due diligence

Recipient

- Background research on the applicant

Deal

- Business case analysis of the project
- What could go wrong?
- Represent the public side of the deal

Can this deal generate net benefits for your community?

3 steps to assess return on incentives

Project Attributes

Economic Impact

Fiscal Impact

Fiscal impact

Tax and budgetary implications of incentive decisions for state and local government

Cost of the incentive

Tax revenue the project may generate

Additional expenditures that might be required

Challenges:

- Jurisdictions affected
- Fiscal impact of indirect and induced jobs
- New jobs and new residents
- Timing

Did this deal generate net benefits for your community?

“Monitor, measure and report”

Project performance

Achieving economic development goals

Examples of program metrics



Redefining Economic
Development Performance
Indicators for a Field in Transition
JULY 2017

 CREC CENTER FOR
REGIONAL ECONOMIC
COMPETITIVENESS

Jobs:

- Wage standards
- Middle skill jobs
- Procurement/purchasing patterns

Increase economic mobility

- Targeted hiring
- Training provided/completed

Career pipeline

- Sector-specific workforce training program completions and placements

Neighborhoods

- Improvements in parks, services, amenities, food systems
- Transit, water lines, broadband in underserved neighborhoods
- Increase access to high-quality affordable homes

Elected officials and community groups are demanding better data on incentive costs and uses.



What is driving interest in incentives disclosure?

Disconnect between what economic developers believe they do and what others think they do

Growth in incentive use

- more programs
- more money
- more projects

Expectation for data-driven, performance-based accountability in government programs

GASB Statement 77

Requires disclosure of financial information about tax abatement agreements between individual taxpayers and governments

- Guidance is limited to tax abatements – does not include all tax expenditures or other forms of assistance to businesses
- Not limited to tax abatements for business attraction/expansion

Why? To make transparent the financial impact of transactions that can limit a government's revenue-raising ability

GASB is not directly concerned with the effect of tax abatements on economic development outcomes

In effect for financial statements for periods beginning after Dec. 15, 2015

What have been your experiences with GASB 77 reporting?

How much transparency should there be regarding tax incentives?

How much information are you able to share? Internally? With the public?

How can the information you have best be used by your community?

Concluding thoughts

Incentives should be used to accomplish community goals – not just win a deal

State and local governments use many different types of incentives, not just tax breaks

Economic developers can put in place management procedures to make good decisions when providing incentives

These procedures can help answer community questions about how well incentives are working

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Thank you!

Definition of a Tax Abatement

A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or citizens of those governments.

Source: Statement 77; Presentation by Pam Dolan, Project Manager, GASB

GASB Statement 77 State & Local Tax Abatement Disclosure

Disclose agreements between individual taxpayers and the government that might diminish the tax base

Includes:

- General descriptive information (tax being abated, authority, eligibility, mechanism by which taxes are abated, provisions for recapture)
- Commitments made by the recipient
- Other commitments made by a government (such as infrastructure)
- Number of tax abatement agreements entered into and in effect during the reporting period
- Dollar amount of taxes abated during the reporting period

Substance of the transaction rather than the name or description determines whether the abatement must be disclosed.