Date: January 29, 2015
To: Director of Research and Technical Activities  
Governmental Accounting Standards Board
From: International Economic Development Council
Subject: Project No. 19-20E

The International Economic Development Council (IEDC) is pleased to offer these comments in response to the exposure draft of the Proposed Statement of the Governmental Accounting Standards Board (GASB) Tax Abatement Disclosures, Project No. 19-20E. IEDC supports reasonable measures to promote transparency and sound decision-making among leaders and stakeholders as they relate to tax abatements. As a whole, the exposure draft statement raises some interesting ideas and has the potential to benefit financial statement users and decision-makers, though there are a few points of concern that we will raise here in a spirit of helpfulness as GASB works toward final action on this matter.

About IEDC

IEDC is a non-profit, non-partisan membership organization serving economic developers. With more than 4,600 members, IEDC is the largest organization of its kind. Economic developers promote economic well-being and quality of life for their communities by creating, retaining, and expanding jobs that facilitate growth, enhance wealth, and provide a stable tax base. From public to private, rural to urban, and local to international, IEDC’s members are engaged in the full range of economic development experience. Given the breadth of economic development work, our members are employed in a wide variety of settings including local, state, provincial and federal governments, public-private partnerships, chambers of commerce, universities, and a variety of other institutions. When we succeed, our members create high-quality jobs, develop vibrant communities, and improve the quality of life in their regions.

We would like to highlight the following areas for further consideration:

- Effective date and transition
- How the changes in this proposed statement would improve financial reporting
- Scope and applicability of this statement
- Notes to the financial statements

Effective Date and Transition

While it is desirable to institute necessary changes to financial reporting in as timely of a manner as possible, we recommend GASB delay the implementation date from fiscal years beginning after December 15, 2015, to fiscal years beginning December 15, 2016. Implementation may require longer than the proposed timeline allows for, and financial cost for implementation should not be the only measure for determining difficulty or ease in which the transition will take place. From the perspective of economic developers, collecting the data necessary to include in the notes of future financial statements may necessitate new procedures and relationships. The keepers of this information are not always centrally located, and if a key provision of this exposure draft is enacted, those information keepers may lie completely outside of economic developers’ jurisdictions.
IEDC encourages GASB to clarify the practical implications for notes to “all periods presented.” Further, if a jurisdiction is unable to apply the new standard to prior periods and must submit a written explanation, what are the reasons GASB seeks to be clarified in the explanation?

We urge caution in establishing the effective date and suggest one that favors successful implementation over speediness.

**How the Changes in this Proposed Statement Would Improve Financial Reporting**

IEDC supports reasonable measures to improve transparency in all tax abatements, not just those GASB deems associated with economic development. However, we would point out to GASB that, especially since the outset of this project in 2008, states have begun taking significant steps toward analyzing and disclosing tax abatement programs within their jurisdictions. As a recent IEDC Economic Development Research Partnership report titled *Seeding Growth: Maximizing the Return on Incentives* points out, the States of Florida and Maine have thorough reviews of their tax abatement programs. These offer far more detailed information and provide a more complete picture of tax abatement programs than what is proposed in this draft exposure.

IEDC suggests that an alternative avenue, and one that provides a more complete viewpoint of these programs, may be closer to what the states of Florida and Maine have done. While improved financial reporting is certainly a desirable outcome, we are concerned that the users of these reports may not be well-served by the information sought after as stated in the exposure draft.

**Scope and Applicability of This Statement**

IEDC recognizes that the users of financial reports should receive as much complete information regarding tax abatement programs as can be reasonably gathered, which fairly represent program costs and benefits. However, we strenuously object to the stated requirement to report on “agreements entered into by other governments that reduce the reporting government’s tax revenues.” One jurisdiction cannot be held accountable for the actions of another, even when those actions have an impact on tax revenues of the community not party to the agreement. The example cited in the exposure statement related to school districts may be valid, but the practical application of this requirement presents such an onerous burden that the cost of executing it cannot be seen to outweigh the benefit of reporting the information.

It cannot be seen to benefit the users of financial statements to have the reporting body within a community try to gather information on the tax abatements offered by another community. Such reporting bodies may not have access to complete and reliable information in order to determine which programs are in place in a neighboring community, either by design of the neighboring community or by a reasonable lack of knowledge of tax abatement mechanisms and agreements on the part of the reporting community. We find this particular provision of the exposure draft to be of great concern and urge its exclusion from the final statement.

As previously stated, IEDC supports reasonable efforts to improve transparency, protect taxpayers, and provide financial statement users with information to conduct sound decision-making. It is therefore troubling and confusing that in Appendix B (B3, B4, B5, B6) GASB is stating that only tax abatements with an economic development focus need be reported on in the notes of financial statements. This requirement seems to be inconsistent with the stated objective of the proposed changes. Should financial
statement users not receive information about all tax abatements within their community, as all have the potential to impact revenue and therefore taken into consideration? By specifically targeting what GASB defines as economic development programs, the implication is that only economic development tax abatements cost money and need to be considered by financial statement users.

Surely this could not have been the intention of GASB, when taking other components of the exposure draft into consideration, as this could be viewed as unfairly targeting economic development tax abatements or even economic developers themselves.

**Notes to Financial Statements**

We would encourage GASB to revise for the final statement an expansion of the criteria that make a recipient eligible to receive tax abatements. If the purpose of the proposed changes is to provide financial statement users with a complete picture of the costs and benefits of tax abatement programs, the reporting on this should be inclusive of specific benefits sought by the community offering the abatement.

The exposure statement does not specifically bar the inclusion of this information in the criteria, however, the lack of detail in this space coupled with considerable detail on the costs and provisions for recapturing taxes in failed agreements could be construed as presenting a negative outlook for tax abatement programs in general. IEDC recognizes that this is not the intention of the proposed changes and that the desired outcome of this change is to promote greater transparency and more effective decision-making based on data available. Accordingly, we suggest GASB include specific suggestions, if not requirements, for what types of information would be acceptable for reporting on the criteria that made a taxpayer eligible to receive a tax abatement, including: potential for jobs created, future tax revenue based on increased property value and income tax increases, and value of other improvements made as a result of the agreement.

IEDC encourages GASB to consider all possible avenues that would include a fair and reasonable reporting on the potential benefits of a tax abatement program based on the target outcomes that lead to the decision to offer the abatement.

**Conclusion**

IEDC appreciates the opportunity to provide comments on the exposure draft of the proposed statement related to tax abatements. We applaud GASB’s effort to advance transparency in financial statements and provide financial statement users with detailed, unbiased information that will promote better decision-making in the future. We are however concerned about the focus and content of what must be included and excluded in this new report requirement. To summarize our concerns:

1.) The implementation timeline should be extended to allow for the necessary reviews, procedural changes, and relationship building that must necessarily take place in response to the proposed changes.

2.) Criteria that qualified a taxpayer to receive a tax abatement should be expanded with further information collection related to potential benefits as a result of providing the tax abatement. In presenting information that is one-sided toward cost, decision-makers cannot plan for the intended increase in revenue.
3.) By defining tax abatements as offerings made for economic development purposes and specifically excluding other types of abatements, GASB is not consistently applying the same standards of reporting to all tax abatements that both cost and benefit a community. There can be no reasonable justification for requiring this new reporting for only economic development-related tax abatements versus all tax abatements. Accordingly, we recommend GASB simply eliminate the term ‘economic development’ from the proposed statement.

4.) GASB should remove provisions for reporting on the tax abatement programs of other communities outside the reporting body’s jurisdiction. This requirement, even in the watered-down version called for in the exposure draft as compared to reporting requirements of one’s own tax abatements, is onerous and will lead to implementation delays at best and inaccurate information at worst.

5.) GASB should consider reviewing what communities are already doing with regard to reporting on tax abatement activities and that these new requirements may be duplicative and unnecessary since the project began in 2008.

6.) It is worth noting that tax abatements, or incentives as they are commonly referred to in the economic development profession, are utilized with the intention of increasing the tax base over time. They represent an investment in the economic future of the community. Agreements are not entered into with the goal of losing money. Indeed, increasing the tax base is one of the most important objectives of economic development, next to job creation and improving the quality of life within a community.

We are also including as part of our formal comments two reports from our Economic Development Research Partners group, which are both focused on the topic of incentives and can provide a much more detailed insight into how economic developers and communities utilize incentives to spur job creation.
Seeding Growth: Maximizing the Return on Incentives
International Economic Development Council

IEDC is the world’s largest membership organization serving the economic development profession, with over 4,500 members and a network of over 25,000 economic development professionals and allies. From public to private, rural to urban, and local to international, our members represent the entire range of economic development experience. Through a range of services including conferences, training courses, webinars, publications, research and technical assistance efforts, we strive to provide cutting-edge knowledge to the economic development community and its stakeholders. For more information about IEDC, visit www.iedconline.org.

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Economic Development Research Partners (EDRP)

The EDRP Program is the “think tank” component of IEDC, designed to help economic development professionals weather the challenges and grab opportunities from economic changes affecting our communities. EDRP members are leaders in the field of economic development, working through this program to improve the knowledge and practice of the profession.

IEDC would like to thank the Economic Development Research Partners program for providing the impetus and resources for this project.

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Acknowledgements

IEDC would like to thank the Economic Development Research Partners (EDRP) program for providing the impetus and resources for this research.

In particular, we would like to acknowledge the Incentives ROI Task Force for their guidance in the paper’s development: Michael Meek, chair, and members Jim Damicis, Birgit Klohs and Mark James. This paper would not be possible without their contributions and expertise.

Finally, we would like to thank Jeffrey A. Finkle, President and CEO of IEDC, for his oversight of this project.
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Introduction

Financial incentives are today a central tool of economic development practice. In a recent poll of the International Economic Development Council’s (IEDC) membership, 83 percent of economic developers agreed that professional standards of administration and evaluation would assist them in better use of incentives.¹

This paper begins with the principle that incentives are investments made on behalf of stakeholders - the citizens of the locality or state that the EDO represents - with the objective of generating a return on incentives (ROI), a term that borrows from the private sector concept of return on investment, also commonly abbreviated as ROI. Like private investors, economic development organizations (EDOs) should manage their incentives with the goals of maximizing ROI and minimizing risks.² However, return on incentives differs from private sector investments in that returns can take a number of forms, including new jobs, increased local spending, and higher tax receipts.

This report offers models that EDOs can use to calculate ROI. By rigorously evaluating the efficacy of their incentives, EDOs can reduce their costs, minimize risks, increase regulatory compliance, and spur innovation. Organizations that regularly perform evaluations of their investments and actively manage their portfolios are significantly more likely to achieve their projected returns.³ The Government Finance Officers Association writes,

“Providing a thorough and rigorous analysis of each project is critical… Responsible use of public funding requires that projects funded provide a suitable return for the jurisdiction, are consistent with overall community goals and priorities, and require that investments are made in a transparent manner with full understanding of all short- and long-term costs and benefits.”⁴

This report also offers model standards of practice that can be adapted by EDOs to design and administer high-performing incentives programs, including:

- Methods to lay the groundwork for high returns
- Best practices in designing incentives programs and agreements

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⁴ GFOA, “Evaluating.”
Defining Economic Development Incentives

When deciding where to invest, firms consider three types of factors: operating costs, operating conditions, and quality of life. Operating costs are business operating expenses that often vary from place to place, including the costs of labor, materials, transportation, land, and utilities, as well as a firm’s likely tax bill. Operating conditions are non-financial factors that can significantly influence business operations, including proximity to customers, safety, regulatory environment, and the availability of a skilled labor force. Quality of life factors include education and housing quality.\(^5\)

In the long-run, public policy can influence most or all of these factors. But in the short-term, when trying to assist a company in choosing a location to invest, an EDO actually has little influence on the costs of doing business. Incentives, inducements provided to increase a community’s investment attractiveness, are an available short-term tool. Incentives help to ameliorate operating conditions, or decrease operating costs. The recent EDRP report, *More Than Money: Alternative Incentives That Benefit Companies and Communities*, discusses non-financial incentives, which generally affect operating conditions; this present report concerns financial incentives, which most often reduce operating costs.

Financial incentives encompass several design dimensions. Incentives can be direct or tax-based. Direct financial incentives, such as grants and loans, aim to reduce non-tax operating costs; tax incentives reduce firms’ tax liabilities through credits and exemptions.\(^6\) Another dimension is whether incentives are awarded on a statutory or discretionary basis. In a statutory incentive design, firms meeting defined criteria are granted the incentive; discretionary incentives are so-named because they give EDOs discretion, or leeway, in which firms receive incentives and the amounts of awards.\(^7\) A final distinction of incentives concerns the timing of their payment. In some programs, incentives are paid up front, in anticipation of the achievement of incentive objectives, such as job creation; other incentives programs

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commit incentives to a company, but do not make payments until the objective has been verifiably achieved.

The Appendix offers a comprehensive list of incentives with examples.

The State of Incentives Today

The prevalence and size of economic development incentives has grown steadily since the 1980s. Today, there are incentives at the federal, state, and local levels. In 2013 there were estimated to be 1,800 incentive programs at the state level alone.

The value of individual incentives agreements has also increased: between 1990 and 1998, the average value of incentives offered to businesses grew from 10 percent of a recipients' tax bill to 30 percent. A 2012 estimate suggested that state and local agencies annually provide approximately $80 billion in incentives. In 2014, two large incentive investments made national headlines. The state of Washington signed an incentive agreement with the Boeing Company reportedly worth $8.7 billion. Hillsboro, Oregon agreed to a $2 billion incentive package to retain Intel Corporation.

Given the prevalence of incentives, economic developers should ensure that they are using these tools as effectively as possible. At present, many jurisdictions do not track the amount of incentives they commit, nor do they calculate the economic benefits of the incentives they have actually awarded. One recent study found that between 15 and 45 percent of incentives programs never collect data, perform evaluations, or publish updates. Better management techniques would maximize the value of incentives and provide the data necessary to demonstrate the effectiveness of this economic development tool.

More than Money: Alternative Incentives That Benefit Companies and Communities


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13 C2ER, State...
This recent EDRP report investigates the use of non-financial incentives, such as providing companies with workforce development, rapid permitting, networking opportunities, packaged information, customized research, and infrastructure. The report finds that non-financial incentives, like traditional incentives, assist in attracting businesses to the community, but may be preferable because of their lower cost and because a greater proportion of their benefits stay within the awarding community.

**Best Practices in Incentives Portfolio Management**

In a recent survey, 83 percent of IEDC members reported that it would be helpful to have guidelines for awarding incentives. The following guidelines are not intended as a “set” that must be adopted or rejected as a whole. Rather, it is recommended that EDOs, as they design and administer incentive programs, should select tools from this list that are best-suited to their intended objectives. They should also take into consideration local economic and political factors.

**Set the Context**

EDOs should create an operating environment in which they can effectively use incentives. To achieve a framework for effective incentive programs, economic developers should:

- Identify long-term community economic development objectives
- Create strong cooperative regional partnerships
- Deploy non-financial incentives
- Acquire the equipment and human resources needed to manage incentives programs

**Engage in Strategic Planning**

IEDC endorses the practice of “strategic planning” - drafting a comprehensive and cohesive plan that encompasses all aspects of a community’s economic growth and development, including business retention and expansion programs, marketing, and workforce development. Incentive programs should advance the objectives outlined in strategic plans by attracting and retaining investments in identified target industries, or locations targeted for redevelopment.

**Create Regional Agreements**

Much of the competition for investment is at the level of metropolitan areas, not individual jurisdictions. Local competition for private investment is rarely the most productive use of incentives. In some of the most publicly criticized cases, some businesses have been granted incentives repeatedly to move over

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short distances, without creating any new jobs or spending.\textsuperscript{15} IEDC members have expressed support for states to legislate curbs on local incentive competition.\textsuperscript{16}

A best practice identified by economic developers across the nation is for communities to be proactive and embrace metropolitan cooperation. This is a long-term strategy that has proven to be significantly more successful than local, incentive-driven competition. In the absence of state restrictions on incentive use, jurisdictions have entered into regional compacts that promote collaboration and voluntarily restrict the use of incentives for short-distance relocations. Such regional compacts have been adopted in many regions across the United States, allowing localities to focus their limited resources on expansions and relocations from elsewhere.

For example, the regional agreement in metropolitan Cleveland affirms that:

“[Our] economy will be stronger if its communities work together, rather than against each other... The focus of economic development efforts should not be on encouraging companies to move from one community to another within the county... Where a business has not indicated that it is considering a move from its current location in a participating community, we will not actively pursue that business to encourage it to re-locate.”\textsuperscript{17}

\textit{Deploy Non-Financial Incentives Whenever Possible}

Non-financial incentives include rapid permitting, business information services, networking opportunities, training, and technical assistance. A recent EDRP report found that non-financial incentives tend to be less expensive and in many cases more efficient than financial incentives. For example, expedited permitting encourages faster construction of a project. Faster construction typically means earlier start up and a faster track to new jobs and taxes generated for the jurisdiction. For businesses, the impact of opening a new facility faster can have a significant positive impact on a company’s bottom line that would be expensive to replace with financial incentives.\textsuperscript{18} Because of non-financial incentives’ lower cost, EDOs should consider using non-financial tools prior to financial incentives.

\textit{Build Monitoring into Incentive Programs}

When designing and administering incentives programs, EDOs should consider the methods of tracking, monitoring and calculating ROI, and then train staff or hire consultants to ensure this occurs. There are many considerations involved in determining incentive effectiveness, which include calculating

\textsuperscript{15} Kevin Collison, “\textit{Applebee’s to Move Headquarters, 390 Jobs to Kansas City, Mo., from Lenexa},” \textit{Wichita Eagle}, May 28, 2011.
\textsuperscript{18} Swati Ghosh and Tye Libby, \textit{More than Money: Alternative Incentives that Benefit Companies and Communities},
economic multiplier effects over time. Some EDOs have found it helpful to purchase and employ their own econometric software, while others hire economic consultants to do independent evaluations.

**Design Effective Programs**

EDOs can design more effective incentive programs by undertaking the following design steps:

- Articulating a statement of the incentive’s purpose
- Identifying target industrial sectors, locations, and project types whose attraction will help meet strategic economic development objectives
- Explicitly stating clear criteria for projects that will qualify for financial incentives
- Employing financial structures that provide a high degree of effectiveness for cost
- Creating mechanisms that reward companies for achieving public objectives
- Specifying the maximum amount that can be paid out under the program
- Engaging recipients in data collection over the life of the incentive

**Articulate a Statement of Purpose**

The design of an incentive program should begin with a Statement of Purpose that describes what the incentive is intended to do. Effective statements of purpose are clear, simple, and offer certainty to both citizens and potential incentives recipients. The Statement of Purpose should specify:

- The ultimate intended goals of the program
- How the program advances strategic community goals
- The ways in which stakeholders will benefit from the program
- The risks inherent in the program

The Statement of Purpose is implemented through Investment Agreements and their Investment Criteria.

**Design Incentives to Advance Strategic Objectives**

A strategic economic development plan specifies a community’s objectives, and identifies the types of business activities that will need to be retained, expanded, and attracted to meet these objectives. Incentives should be designed to improve the attractiveness of the community by addressing the factors critical to these facilities and industries, and to incent companies to remain or relocate to the

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jurisdiction that would not have located in the jurisdiction but for the incentive. Therefore, incentives programs should explicitly state what industries, locations, or facilities they will target, and how they will do so.

**Pew-CREC Business Incentives Initiative**

The Business Incentives Initiative project is a partnership between the states of Tennessee, Oklahoma, Michigan, Maryland, Virginia, Indiana, and Louisiana. Supported by the Pew Trusts and the Center for Regional Economic Competitiveness (CREC), the initiative is designed to identify and disseminate best practices in awarding, administering, and evaluating incentives programs at the state level.

*Design Incentives with Clear and Explicit Criteria*

Incentives programs should explicitly state the process for how companies can apply for incentives, the benefits available from the incentive, and the qualifying criteria by which incentives will be awarded to projects. Programs with such transparent and predictable criteria enjoy greater public support and greater legal durability in the case of challenges based on constitutional equal treatment and competition provisions. Although most programs at the state level currently conform to this standard, public officials have sometimes been given broad authority to waive requirements, and many recently implemented programs do not have clear or consistent criteria for awards.

*Select Effective Financial Structures*

There are many financial structures that can be used to design incentives. The most common forms are direct incentives, such as grants, and tax incentives, such as abatements, credits, and rebates, but practitioners should also be aware of other structures, such as loans.

Compared to loans and tax incentives, grants can offer a high degree of fiscal certainty to public accountants, because loan repayment schedules are often flexible and businesses often have discretion over when they will claim tax credits or deductions. Furthermore, grants appeal to businesses because they provide cash to a recipient immediately upon meeting investment criteria; the earliest that tax credits and rebates can be claimed is usually at the end of a fiscal year.

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23 Ben Weisfuse, “Sealing the Deal,” Site Selection, May 2012; C2ER, State....

Many incentives are designed around reducing recipients’ tax burdens by credit, abatement, or exemptions. Tax incentives can be less expensive than grants, but it is important to recognize that when tax incentives are awarded to recipients that would have located in the jurisdiction regardless of the incentive, they reduce revenue that governments would have otherwise collected. It is thus necessary that tax incentives should be carefully designed to ensure that recipients would not have located in the jurisdiction but for the incentive.

Loans improve recipients’ upfront cash flow, increase the attractiveness of a location and ease the credit problems that sometimes stand in the way of otherwise viable projects. Moreover, because loans are recoverable and can be structured into revolving loan funds which are in theory perpetual, loans can be a significantly less expensive incentive instrument than are non-recoverable expenditures. Thus, EDOs should investigate the use of loans instead of permanent incentives, such as grants and abatements.

**Reward Performance**

When companies apply for incentives, they usually project the number of jobs they will create and the amount of money they will invest locally. Incentives can be granted in advance of construction and hiring, based on recipients’ commitments or an EDO’s projections of job creation, investment, and ROI, or upon evaluation that these benefits have occurred. At present, approximately half of state-level incentives programs are designed to reward performance; the other half are based on forward projections by recipient companies. When incentives are based on commitments or projections, however, EDOs run the risk that benefits will not materialize. Investments may then have to be recovered through clawbacks, which are difficult to collect and tend to create negative feelings with investors.

EDOs can reduce the risks for both stakeholders and recipient businesses by designing incentives that reward performance. After capital investments have been made and jobs created, hard data on hiring, payroll contributions, construction costs and taxes generated by the project are more readily available and relatively precise, allowing for more accurate ROI calculations for incentives. In fact, the enhanced accuracy of the performance-based incentive allows EDOs to recommend incentives that are proportional to a project’s demonstrated success in creating jobs or meeting other objectives.

While most financial structures can be designed to reward performance, including grants and tax credits, an innovative performance-based structure is the forgivable loan. In this structure, an applicant receives a regular loan from the EDO, backed by a promissory note or mortgage. Once the borrower

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26 C2ER, *State...*

27 MASC, “Incentives...”
demonstrates compliance with investment criteria specified in an incentives agreement, the EDO defers payments on both the interest and principal. If the borrower meets the criteria continuously for a period specified by the incentives agreement, the EDO forgives the loan principal. In this model, businesses receive funds upfront, thus immediately improving cash flow while public risk remains low.28

**Design Data Collection, Evaluation, Monitoring and Review Regimes**

Wherever possible, EDOs should create the mechanisms that will allow for data collection, evaluation, monitoring and review as part of the program design. This should be done prior to entering into any agreements or formally awarding any incentives.

One of the most important requirements in calculating ROI is data on incentives applicants and recipients. In advance of awarding incentives, EDOs should determine which data will be necessary to monitor performance, calculate ROI, and evaluate the program. Then, data sources and collection mechanisms should be identified. One commonly used mechanism to collect certain forms of data that are otherwise inaccessible is to require corporate recipients to disclose construction, jobs, tax and capital investment information as part of their incentive agreement.

In other cases, EDOs will need to coordinate with government agencies to maintain access to critical data. One vital piece of data is the dollar value of the incentives that are awarded. For example, surprisingly many agencies do not maintain accurate records of the end value of the tax incentives they have provided over time.

Effective incentive portfolio management takes resources, in the form of both staff training and staff time to calculate ROI. To reduce the public cost of training staff and administering incentives programs, economic developers should consider designing incentive programs to shift responsibility for a portion of these costs to their recipients. This could be accomplished by paying staff expenses through incentives awards, or by making recipients responsible for applying for incentives and then requiring them to submit audited evidence of adherence to investment criteria, such as ROI calculations.

The program design should also indicate how individual incentives recipients will be evaluated. By deciding upon the method and assumptions that will be used in calculating ROI as early in the process as possible, EDOs will significantly increase certainty for businesses and stakeholders once the program is in operation. Finally, the program design should specify when and how the program as a whole will be evaluated.

Many incentives programs are never regularly reviewed either by the jurisdictional government or the EDOs that marketed them. Without such evaluation, incentives may remain in effect long after their

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28 MASC, “Incentives...”
intended purpose has passed. Establishing a clear evaluation protocol can help to keep the incentive responsive to business needs and effective at building local economies.

Limit Portfolio Size

Regular reviews of program effectiveness allow EDOs to adjust the limits of their incentives portfolios as necessary. Therefore, it is a wise practice for EDOs to consider capping the total dollar volume or scope of incentives programs prior to launching them. Placing such limits is particularly useful in such situations when programs do not have enforceable investment criteria or when ROI will be evaluated infrequently. This can help prevent situations where incentive programs become expectations in attracting all new businesses in jurisdictions, eventually interfering too substantially with tax revenues and expanding beyond the means of the community to support them.

Such an unexpected expansion occurred in Louisiana, where the state instituted a tax deferral program to promote the obscure horizontal oil drilling technique. As this drilling method became widespread, the volume of the program rapidly increased from $285,000 in 2007 to $239 million in 2010.

Create Incentive Agreements

Once an incentive program has been designed and marketed, prospective companies may begin to apply or be identified by the EDO to receive the incentive. An incentive agreement is a legal document that specifies the characteristics of individual incentives investments, including details of the financing to be offered, the conditions upon which it will be offered, and whether financing will be available upfront (projection-based) or after meeting criteria (performance-based). Incentives agreements should consist of standard clauses that remain consistent across all recipients in the program, as well as some information specific to the project.

Companies are often offered incentive packages that include varied incentives such as job creation grants, tax abatements, and state income tax credits. The incentives that form these packages are often committed through programs that vary in their objectives and intent, and that may be administered by different agencies and budgets. Thus agreements should be created for each type of incentive commitment in a company’s package.

Standard clauses of the agreement may include:

- The financial structure of the incentive; if a company is offered 'package' of various incentives, a separate agreement should be created for each incentive it will receive.
- How the incentive supports strategic economic development objectives in the incentive program’s **Statement of Purpose**.
- The investment criteria that the recipient must meet for funds or credits to be disbursed, and the metrics for how performance will be assessed and monitored over time.
- The means of data collection:
  - What data the recipient must disclose to the EDO or evaluating agency.
  - How often data will be submitted or collected.
  - Independent data that will be collected and employed by the EDO or evaluating agency.
  - When third-party audits of any part of the application, evaluation, or calculation processes will be employed.
- Whether ROI will be calculated and if so, what methodology that will be used and how the calculated return will be used and published.
- The consequences of non-adherence to investment agreements.

While the above portions of an investment agreement should remain standard for all incentive recipients in a program, the following clauses may vary according to the nature of the recipient project:

- The name and contact information for the corporate recipient.
- The specifications for the project that public funding will be supporting.
- When incentive benefits will be available to the recipient.
- The maximum dollar amount claimable under the incentive agreement.
- The duration of the incentive.

**Incorporate Investment Criteria and Metrics**

Standardized metrics and criteria are essential to effective portfolio management. Therefore, economic development programs should award incentives based on consistent, clearly defined investment criteria, measured by standardized, quantifiable benchmarks. The criteria and metrics used to award incentives should be readily understood by potential corporate applicants and public stakeholders. Investment criteria should be selected to meet the broader objectives contained in the community’s **Comprehensive Economic Development Strategy** and more specific objectives contained in the incentive program’s **Statement of Purpose**; wherever possible, the criteria should themselves be

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32 GFOA, “Performance.”
33 Project Management Institute, “**Portfolio Management.**”
34 ICA, “Maine.”
described in the pre-agreement design.\textsuperscript{36} Well-defined, consistently used criteria and metrics help to create expectations for regular, predictable, and transparent processes of incentive payment, monitoring, evaluation, and reporting.\textsuperscript{37}

Investment criteria that have been used by various states and localities include:

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Possible metrics</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum private investment\textsuperscript{38}</td>
<td>Minimum square footage, acreage, dollars in new construction</td>
<td>In an incentive agreement with the Ford Motor Company to retain a plant in the city, the City of Chicago specified a minimum square footage for the facility\textsuperscript{39}</td>
</tr>
<tr>
<td>Requirements about on-site business activity</td>
<td>Qualitative type (e.g. offices, retail, research and development)</td>
<td>Requirement that recipient projects maintain a headquarters at site\textsuperscript{40}</td>
</tr>
<tr>
<td>Minimum local purchases by recipient company</td>
<td>Minimum local purchases of labor or goods</td>
<td>Michigan’s Consumers Energy made a commitment to increase their local purchases by $250 million over five years</td>
</tr>
<tr>
<td>Maximum public investment per new job</td>
<td>Minimum jobs per public dollar invested to exist for a certain number of years\textsuperscript{41}</td>
<td>In Oregon’s Enterprise Zones, incentives investments must not create job losses outside the zone, and they must meet the job criterion the whole time the project receives incentives</td>
</tr>
<tr>
<td>Minimum pay per worker</td>
<td>Minimum wages exceeding the average market wage, the federal poverty level, the federal</td>
<td>Ohio’s Job Creation Tax Credit mandates an average wage for new employees of 150 percent</td>
</tr>
</tbody>
</table>

\textsuperscript{36} Nicholas, “Every Dollar;” Joan Fitzgerald, “Retention Deficit Disorder.”

\textsuperscript{37} ICA, “Maine.”

\textsuperscript{38} Fitzgerald, “Retention.”

\textsuperscript{39} Fitzgerald, “Retention.”

\textsuperscript{40} GFOA, “Performance.”

\textsuperscript{41} MASC, “Incentives,” Fitzgerald, “Retention.”
<table>
<thead>
<tr>
<th>Minimum average worker hours and benefits</th>
<th>Maximum proportion of jobs going to part-time or temporary workers</th>
<th>An Alabama rule restricts the number of temporary workers who may be employed in facilities receiving state incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum proportion of jobs going to identified demographics</td>
<td>Minimum proportion of jobs going to local residents, minorities, women, youth, displaced workers, or other demographics</td>
<td>Maine’s Progressive Alliance for Careers and Training programs financial assistance to aid for newly trained and displaced workers</td>
</tr>
<tr>
<td></td>
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<td>Incentives recipients in Oregon Enterprise Zones must enter into a first-source agreement with local job training providers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In North Carolina’s Enterprise Zones, companies must disclose how many jobs are filled by residents living in the zone</td>
</tr>
</tbody>
</table>

43 Lerch, “Accountability.”
44 Lerch, “Accountability.”
46 Gorin, “Approaches.”
| Minimum period that the company must remain at the site | Minimum years, until investment is repaid | In Connecticut, state law mandates that businesses cannot relocate out of the state for 10 years after receiving an incentive and cannot move within the state unless workers are offered jobs at the new location. Recipients of Ohio’s Corporate Franchise and State Income Tax Credits must stay in the same location for twice the duration of the credits.  

[47]

| Adequate corporate financial performance | Minimum years of profitable operation; minimum recent growth in sales, revenue, profit, or number of employees.  

[48] | Due diligence or risk assessment is conducted to the satisfaction of an outside assessor.

| Minimum projected or performance-based return on incentives.  

[49] | Payback period or percentage return | Internal rate of return of 10 percent |

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47 Lerch, “Accountability”  
48 Young companies with no record of profitability, companies with rapidly declining sales or profits, or that have not been profitable for a number of years, present higher risks for the public investor than established companies, and stakeholders may be especially skeptical of these investments: “Nevada Gets Musked,” Wall Street Journal, September 17, 2014. Moreover, should recipient companies go bankrupt, incentive investors, especially where incentives take the form of tax credits, may have little or no standing: David S. Yellin, “Masters of Their Own Eminent Domain,” Georgetown Law Review, (99), 2010, 651-676. Significant financial information on stock market traded companies is via annual reports and filings with the Securities and Exchange Commission: Anderson, “Knowledge.”  
49 GFOA, “Performance”
While investment criteria and metrics are essential to maximizing returns on incentives, EDOs cannot evaluate whether incentive recipients are in compliance without reliable data. Investments agreements should therefore specify what data will be collected, by whom, and how often.

Specify the Agreement Term
Some incentives are paid only once as a grant, loan, or tax credit. Other forms of incentives, such as tax abatements, are continuous over a number of years. Investment agreements should limit benefits to a set aggregated dollar amount, a set duration, or both. For example, in Oregon, many incentives agreements expire after five years; legislators must vote to renew the agreements made under the programs.

Use the Language Necessary to Make Agreements Legally Binding
Though agreements are essential, not all are legally binding; courts have dismissed some agreements that are not adequately specific or appropriately worded as mere “expressions of hope” with no legal ramifications, leaving the community unable to take any action based on the agreement. Invest investment agreements should be drafted or reviewed by knowledgeable legal counsel, with the aim of providing a reasonable guarantee that the terms will be honored.

Analyze and Monitor Portfolio Performance
The financial structure of the incentive agreement decided upon in the program design phase determines whether public funds and benefits will be disbursed immediately or at some later time based on performance criteria. Whether payment is immediate or delayed, once the investment agreement has taken force, the task of portfolio monitoring begins. This involves collecting and analyzing data, and calculating the return on incentives through various methods. These evaluations can be used at the investment agreement level, as well at the program level, to ensure the types of companies and facilities that are receiving funds accord with the program’s target recipients. Data can also help EDOs to calculate any discrepancy between projected and actual performance of recipients. Comprehensive evaluations of this type help economic developers to sharpen investment criteria and mitigate risks as necessary over time.

50 In the case of Charter Township of Ypsilanti v. General Motors Corp. (1993), leaders in Ypsilanti, MI sued General Motors after it ceased production at a plant that had benefitted from tax abatements. An appeals court subsequently ruled in favor of the carmaker, arguing that its promises were legally no different than ‘expressions of hope’ that it would create jobs. (Yellin)
51 MASC, “Incentives.”
53 Jonathan Q. Morgan, “Analyzing”
Though most incentives agreements incorporate investment criteria, many jurisdictions do not collect the data needed to properly evaluate ROI after an investment has been made. Fewer than half of state incentives programs, for instance, track the number of jobs created by the program or the capital investment made by recipient companies. Only 13 percent of tax-based incentives programs track the tax revenues generated by the projects they fund.54

One of the most effective means of collecting this data is to collect the information that agreements require recipients to disclose, such as employment at a facility, or annual facility revenues.55 Disclosure can give economic developers access to information that is not otherwise publicly available, including the number of new jobs and the amount of tax relief that a company has received. Another type of data sought by jurisdictions is information on facility costs and revenues, allowing evaluators to calculate the influence on incentives on cost and whether a facility might be more profitable in another location, but for the incentive.56 Such disclosures are now required in incentives programs in Ohio, North Carolina, Texas, Illinois, Connecticut, and Louisiana.57

In addition to collecting information from recipients, evaluators must collect data about jobs growth, property values, industrial operating costs, and local budgets -- information which is often essential to determining whether recipients have achieved investment criteria and in calculating ROI. Although EDOs may routinely gather some of this data in the normal course of their work, acquiring all relevant data, such as tax returns, may require EDOs to cooperate with government agencies. Interagency data-sharing initiatives are thus highly beneficial to improving incentive evaluations and monitoring.

Using the data collected internally and from recipients and other agencies, EDOs can evaluate whether recipients are achieving their committed objectives according to the metrics of the investment criteria. Data can also be used to calculate ROI, which is extensively discussed later in this report. EDOs could also rank the effectiveness of incentive agreements within the program to show which agreements are outperforming, performing as expected, and underperforming.

Periodically, EDOs should engage outside evaluators to conduct or verify performance evaluations. The range of evaluators includes economic consulting firms, fiscal departments, Certified Public Accountants and academics. For example, in Mississippi, incentives evaluations are periodically reviewed by economists at the University Research Center, a body which regularly conducts economic evaluation.

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54 C2ER, State.
55 Lerch, “Accountability.”
56 Paquin et al., “Rethinking”
analyses on behalf of the state government; in Rhode Island and Indiana, evaluations of state incentives are reviewed by the fiscal department.\textsuperscript{58}

**Actively Manage the Portfolio**

Economic developers use portfolio analysis to measure the effectiveness of incentives investments. The next step is to decide whether incentives investments should be retained, expanded, or terminated. Investments agreements should specify what actions will be taken when companies fail to meet investment criteria. It is usually difficult to alter agreements or recover funding after they have been signed when criteria have not been clearly identified.

One of the simplest ways to adjust incentives is to *scale incentive payments in proportion to performance*.\textsuperscript{59} For example, consider an investment agreement in which an EDO offers to abate property taxes by 50 percent in exchange for a corporate commitment to employ 100 people within one year of commencing operations. If the recipient facility only employs 80 workers after the first year, the abatement could simply be adjusted to 40 percent to reflect the facility’s performance.

Per the relevant clause of the investment agreement, if a recipient fails to meet investment criteria over a significant duration of time, EDOs should *recommend that non-compliant incentives investments be terminated*. Most incentives agreements currently allow agreements to be terminated prematurely.\textsuperscript{60}

Clawbacks are an additional tool that may be used in conjunction with termination to *recover payments made to companies that have failed to achieve investment criteria*. Clawbacks require incentives recipients to repay a portion or all of the incentives they have received. They are a way for EDOs to recoup bad investments. One study found that 18 percent of incentives agreements allow for clawbacks.\textsuperscript{61} Additionally, some jurisdictions, such as Washington and Connecticut, charge interest on top of clawbacks.

Clawbacks are effective tools for incentives programs where investments are made on a one-time basis, such as one-time grants, loans, or infrastructure improvements. Furthermore, for incentives programs where an ongoing public investment is made (such as income tax credits), clawbacks are sometimes necessary, especially where portfolio evaluations are relatively infrequent. However, for incentives programs with frequent evaluations and ongoing investment, recovery of past investments may be

\textsuperscript{58} Pew, “Evidence.”
\textsuperscript{59} Good Jobs First, “Model Legislation.”
\textsuperscript{60} Kenyon et al., “Rethinking.”
\textsuperscript{61} Kenyon et al., “Rethinking.”
overly punitive for companies that have begun to underperform after the investment agreement has come into force, especially in response to changing economic conditions in the jurisdiction.

Some jurisdictions have included measures that outlaw companies that fail to meet investment criteria from receiving future financial benefits from the jurisdiction, such as receiving state contracts and pension fund investments.\(^{62}\) This is a highly punitive measure that should be reserved only for companies that have been proven to seriously abuse the public trust with incentives.

Communicate with Shareholders

Economic developers should communicate the success of their incentive investments to stakeholders through:

- Regular or annual reports on program design and effectiveness of the EDO’s portfolio
- Regular comparison with other economic development incentive programs
- Periodic comprehensive review of all incentives programs

Submit Regular Reports to Stakeholders

EDOs should communicate the success of their incentives and publicize the results of their ROI calculations. One means of communicating with shareholders is an annual report to lawmakers and the public. These reports could include:

- The dollar amounts of incentives committed and paid out under a program
- The number of agreements in force, the expected length of those agreements, and the criteria associated with those agreements
- Whether past incentive recipients have grown or contracted in the jurisdiction since the agreement ended\(^{63}\)
- The proportion of incentives going to attractions, retentions, and expansions
- The compliance rate of companies with investment criteria, with a “dashboard” of metrics
- The amount of recapture and the reasons for recapture
- The overall calculated ROI for the program

\(^{62}\) Lerch, “Accountability.”
\(^{63}\) Craig Howard and Natalia Carrizosa, Review of Montgomery County’s Economic Development Incentive Programs, Office of Legislative Oversight, Report Number 2013-2.
These reports have been mandated in several jurisdictions, especially at the state level. In Nebraska, the State Tax Commissioner reports annually to the legislature about new incentives investments and agreements still in effect, including wage levels and number of jobs created at each recipient company. In Ohio, incentive recipients’ disclosure reports are aggregated and sent to the Governor and state legislature for review.

**Compare the Incentives Program with Similar Investments**

The incentive program should regularly be compared against the historical performance of programs within the jurisdiction, as well as comparable programs in other jurisdictions. Because other investment programs have different aims, target industries, and mechanisms, comparisons should not rely on a single metric. For example, while some incentives may have job creation as a primary goal, others may have as a principle goal increased taxes or enhanced technology transfer. Thus, incentives portfolios should be compared on multiple metrics. It is also important that various portfolios be compared on an “apples-to-apples” basis, using similar ROI and other metric methodologies. Program objectives and duration of benefits should also be noted when comparing performance against other programs. These program comparisons should be made part of annual reports and comprehensive portfolio reviews.

**Undertake a Regular Comprehensive Portfolio Review**

The schedule for review, the identity of the reviewers and the budget necessary to complete the review of incentive programs should be ideally established in the initial design of the program and incentive enabling legislation.

Periodic comprehensive review gives economic developers and stakeholders the opportunity to evaluate program effectiveness, and to clarify or re-orient programs as needed. The questions that can guide such reviews are:

- What goals do investments potentially seek to achieve, if any?
- Are these goals worthy of investment and if so, how much?
- Could programs be merged, restructured, or enhanced so that they more effectively meets its objectives?

Although a recent study found that only seven percent of incentives programs across the United States included regular reviews. Eight states -- namely Alaska, Florida, Indiana, Maryland, Mississippi, New TTARA, “Texas.”

TTARA, “Texas.”

Pew, “Evidence.”

Nicholas, “Every Dollar.”

Hampshire, Rhode Island, and Virginia -- have legislated since 2012 that incentives be evaluated on a regular, comprehensive basis.  

### Evaluations in the Commonwealth of Virginia

The Commonwealth of Virginia has been proactive in reporting on incentives. Virginia’s *Report on Business Incentives 2012-2013* lists the number of companies receiving incentives and the dollar amounts received by each company. For each recipient, the report also lists the number of jobs, the average salary, and the private investment to be created as per the incentives agreement.

Another recent initiative in the Commonwealth was the Virginia Joint Legislative and Audit Review Committee’s (JLARC) review of grant-based incentives. Legislators reviewed the recipients of Virginia’s incentive grants according to whether they targeted companies with:

- High employment multipliers
- An export orientation, with most sales outside of Virginia
- High wages, relative to the industry average

JLARC then made recommendations to improve the administration of incentives in the state.

### Design a Model to Calculate Return

Return on incentives (ROI) can be calculated using several methodologies. Though calculation usually requires staff time, specialized training, and computer software, ROI calculations are essential tools that allow economic developers to maximize the efficiency and effectiveness of their efforts. The following sections detail considerations that must be addressed in building a model to assess ROI. EDOs must understand how these considerations affect the choices and assumptions they make in constructing ROI models and then communicate and explain those choices effectively to stakeholders.

### Promote Ethics, Transparency, and Accountability

No matter how complex and detailed the incentives portfolio manager wishes to be, ROI calculations always incorporate assumptions, educated estimations, and omissions. As one analyst writes, “It is almost impossible to characterize and predict all of the impacts a [private investment] will have on the

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existing community and on the jurisdiction's financial situation.”\textsuperscript{70} ROI calculations are further limited by the currency, comprehensiveness, and accuracy of data used as inputs in the model. Finally, it should be noted that ROI calculations can be significantly manipulated, obscuring rather than illuminating the issues intended to be addressed by ROI.

To increase accuracy and transparency and ensure that ethical norms of economic development are followed, these rules should be observed in calculating ROI:

- Be as accurate and comprehensive as data will allow
- When exact data is not available, use ranges of data, sometimes known as “sensitivity analysis”
- Be as consistent as possible in methods of calculation from year to year and across incentive types; when methods must be adjusted, state this clearly
- Make data and sources used in calculation freely and publicly available, excepting proprietary and confidential data and sources
- Make financial models used in calculation freely and publicly available, excepting proprietary components such as commercial economic modeling software
- Be forthcoming in all communications to stakeholders about assumptions, estimations, sensitivities, and uncertainties

\begin{displayquote}
\textbf{The International Economic Development Council Code of Ethics (2008)}
This code of professional standards includes the following provisions, which should be routinely applied throughout economic developers’ practice, including recommending that incentives be awarded and calculating their impact:

- “Professional economic developers are mindful that they are representatives of the community and shall represent the overall community interest.”
- “Professional economic developers shall keep the community, elected officials, boards and other stakeholders informed about the progress and efforts of the area’s economic development program.”
- “Professional economic developers shall openly share information with the governing body according to protocols established by that body. Such protocols shall be disclosed to clients and the public.”
\end{displayquote}

Estimate the Percent of Private Investment Attributable to Public Investment (‘Additionality’/ ‘Decisiveness’)

By definition, an incentive is “something that incites or has a tendency to incite to determination or action.”\textsuperscript{71} Thus, a public financial program can be described as an economic development incentive only when it induces a company to invest where it otherwise would not have.\textsuperscript{72} Therefore, whenever incentives are awarded, a calculation of ROI must distinguish the “changes in employment or investment which would have occurred in the absence of the economic development incentive from that were caused by the economic development incentive.”\textsuperscript{73} There are three ways to express this concept:

- \textit{But for} the incentive, would the investment have occurred?
- Did the incentive create \textit{additional} local economic growth?
- Was the incentive \textit{decisive} in the company’s location search?\textsuperscript{74}

While it is challenging to effectively answer these questions, they do matter because if a company would have undertaken the action that the incentive is design to spur regardless of the incentive, that incentive effectively creates a cost without any benefit. This is a phenomenon that economists refer to as \textit{deadweight loss}.\textsuperscript{75}

However, determining whether incentives are additional or decisive is notoriously difficult. The role that incentives play in site selection varies according to industry sector, age, and size. The degree to which incentives play a role is partly a factor of the industry’s cost structure. For example, the average manufacturer spends 75 times on wages what it does on property taxes, and thus slight variations in local labor costs may be more influential to location decisions than large variations in property taxes.\textsuperscript{76} Furthermore, firms and the professional site selection consultants who work on their behalf closely protect their location search processes.\textsuperscript{77}

Incentives should ideally be designed so that they are awarded only to companies passing the “but-for”, additionality, or decisiveness tests. However, in practice this is extremely difficult for parties outside the business to ascertain. Various sources suggest that incentives are in fact rarely the deciding factor in

\textsuperscript{71} Merriam Webster Dictionary, 2014.
\textsuperscript{72} This definition encompasses capital expenditures including relocations into an area, retentions when the company would have relocated out, and expansions when the company would not have expanded; and non-capital expansions such as hiring more workers.
\textsuperscript{73} Lerch, “Accountability.”
\textsuperscript{74} James J. Heckman, Robert J. LaLonde, and Jeffrey Andrw Smith, The economics and econometrics of active labor market programs, in Orley Ashenfelter and David Card, eds. \textit{Handbook of Labor Economics} (Elsevier), 1999; Gorin, “Approaches.”
\textsuperscript{75} Pew, “Evidence.”
\textsuperscript{76} Kenyon et al., “Effective.”
\textsuperscript{77} Gorin, “Approaches.”
private investment decisions. Instead, site selection consultants who work on behalf of large firms report that incentive investments are a contributing factor to corporate location decisions, in addition to factors such as local infrastructure, tax structure, and workforce skills and availability.\textsuperscript{78}

While 41 percent of site selectors reported in a study that state and local incentives are important in site selection, 11 other factors were ranked as very important by a greater share of site selectors, including highway accessibility, union and right-to-work status, shipping costs, and energy costs.\textsuperscript{79} A study from the state of Virginia suggests that incentives influence corporate site selection about 10 percent of the time.\textsuperscript{80} Instead, research suggests that incentives are more decisive when only a few sites remain in consideration.\textsuperscript{81} It has been argued that incentives play a larger role when site selection consultants are indifferent between sites; in these cases, incentives might play a larger role.\textsuperscript{82}

Clearly, then, economic developers cannot design incentives that are only awarded for projects that would not occur but-for the incentive. Instead, practitioners should as carefully as possible target incentives around strategic goals and real business needs, and then estimate a percentage of awards that pass the but-for test, expressed alternatively as:

- The probability that any given corporate investment project is the result of the an incentive or
- The proportion of private investment in a given project attributable to the incentive

This percentage could be arrived at through interviewing recipient companies and site selectors, or by comparing jobs, investment, and sales growth between incentive recipients and non-recipient competitors.\textsuperscript{83} Some questions to consider in developing this percentage include:

- How do competitor communities resemble and differ from the target community?
- What do site selectors and competing businesses report about the cost structure in that firm’s industry?
- After the incentive has been granted, did business activity in the target sector rise?\textsuperscript{84}

These proportions can then be multiplied by “projected economic and fiscal effects of a firm’s investment to estimate the effects attributable to the tax incentive.”\textsuperscript{85} In a Virginia study, ROI was calculated on the basis that 10 percent of incentives induced investment, while 90 percent of recipients

\textsuperscript{78} Peters and Fisher, “Failures.”
\textsuperscript{79} Virginia JLARC, “Review.”
\textsuperscript{80} Virginia Joint Legislative Audit and Review Commission, \textit{Review of State Economic Development Incentive Grants}, 2012, p. 28.
\textsuperscript{81} Virginia JLARC, “Review.”
\textsuperscript{82} Virginia JLARC, “Review.”
\textsuperscript{83} Lerch, “Accountability;” Kenyon et al., “Rethinking.”
\textsuperscript{84} TTARA, “Texas.”
\textsuperscript{85} Kenyon et al., “Rethinking.”
would have invested in the state despite the incentives. Nonetheless, the study found that the incentive was effective in increasing the state’s employment, gross domestic product and revenues. This method of calculating ROI may have given a more accurate estimate of incentives’ actual impact.

Account for Risks

Like all investments, economic development incentives carry a number of risks, some of which are unique to investing public funds in private enterprises. These risks include the possibility that corporations receiving incentives investments will go bankrupt, move out of the jurisdiction, or fail to produce the projected private capital investments or jobs. The best way to mitigate these risks is to reward demonstrated corporate performance, include legally binding investment criteria that reward performance, and recommend that incentives agreements be adjusted or terminated in the case of non-compliance. However, in calculating the ROI on both specific investments and of the entire program portfolio, economic developers should adjust their calculations according to outstanding risk factors. These risk factors can best be estimated according to the actual stated performance of recipient companies in the program. When this data is not yet available, data from comparable incentives programs in the jurisdiction, other jurisdictions’ data, or local data on comparable classes of companies may be used. Risk factors include:

- The percentage of companies that declare bankruptcy prior to the end of their incentives term and within a set number of years after a term has expired
- The percentage of recipient facilities that move out of the jurisdiction while an agreement is in force, and after the agreement has ended
- The number of recipients that do not meet mandatory disclosure requirements
- The number of companies whose agreements are recommended for adjusted or premature termination

Account for the Timing of Expenses and Benefits

The timing of costs and benefits for a new project rarely coincides. For instance, construction wages (a benefit) are often paid soon after an incentives agreement is created, but if the agreement is performance-based, the incentive (an expense) may not be granted until permanent jobs are created. The duration and frequency of costs and benefits likewise do not frequently coincide.

An incentive grant, for instance, is paid only once, but the benefits such as new wages being paid in a community will occur over a long period of time. To effectively calculate ROI, the economic developer
must therefore determine the timing of expenses and rewards.\textsuperscript{86} The most common technique is to determine the sum of all costs versus benefits that will occur in each year of the incentive’s term. The ROI is then calculated both per year and cumulatively. It is important to note, then, that ROI is not static; ROI will decline, increase, or stay relatively constant over time depending on the unique characteristics of incentives programs and projects.

When projecting a program’s future ROI, there is no single timescale that should be used. The time horizons used by recent evaluations performed by EDOs have ranged from as little as a few years to 30 or more. The appropriate time horizon will depend largely on the characteristics of recipient projects and the incentives program as a whole.

Regardless of the time horizon chosen for ROI evaluation, it is important to adjust future cash flows with\textit{discounting}. Discounting takes into account the declining value of money over time—a dollar today is worth more than a dollar tomorrow. Discounting reduces the value of future costs and benefits by a compounding rate, which is also known as the\textit{discount rate}. Because the discount rate is a prediction of what future funds will be worth, there is no prescribed rate. Commonly used rates include long-term inflation, long-term interest rates, or the recent rate of return on bonds or other government financial investments.\textsuperscript{87}

By applying one or more discount rates to future costs and benefits, the economic developer arrives at a net present value (NPV) – i.e. the value of the cash flow in today’s dollars. The net present value is calculated as follows:

\[
NPV = (\text{Costs} - \text{benefits}) \times (1-\text{Discount rate})^{\text{number of years}}
\]

For instance, a tax increase of $1 million generated at the end of year five in the incentive period would be worth $903,921 at a two percent discount rate (100,000*(0.98)^5). As in other aspects of the ROI calculation, it is best to use a range of values for the discount rate, commonly known as\textit{sensitivity analysis}. Relatively small changes in the discount rate can have large effects; applying a 10 percent discount to the tax receipts in the previous example would yield just $590,490.

\section*{Control for the Location of Benefits and Costs}

As crucial as determining\textit{when} an incentive project's benefits and cost will occur is determining\textit{where} they will occur. It is thus essential to define a geographic scope for the ROI calculation; most often, the

\textsuperscript{86} GFOA, “Evaluating.”

limits of the incentive-granting jurisdiction are chosen. This choice has important implications in determining the amount of leakage—namely the percentage of expenditures from the incentive company and its workers that leaks into other jurisdictions due to commuting of workers and expenditures of the business to suppliers that are located elsewhere.

The amount of leakage determines the multipliers for how cash is spent; an effect often modeled using the economic impact analysis tool. A substantial portion of most firms’ spending on goods and services will go to firms that are located elsewhere, which underscores the need for targeted programs with relevant, binding investment criteria to decrease leakage. When workers live in other jurisdictions and commute to work, this reduces both the workers’ aggregate local spending and the government’s need to provide these workers with residential services. It is also important to note that workers and firms will save a portion of their earnings (these savings may or may not be kept or reinvested locally), and will also remit a portion of their incomes in the form of taxes to other jurisdictions.88

This latter issue should also remind the economic developer to consider the effect of incentives on other layers of government. Incentives will often have disparate effects on jurisdictions that overlap with municipal government, such as fire districts, school districts, and counties. Incentives should strengthen the fiscal position of all of the jurisdictions providing service in an area. Similarly, economic developers should consider how state or local incentives may interact with federal taxes. Grants are considered income subject to federal tax liability, while tax incentives reduce firms’ deductible business expenses. Thus, local incentives may cause countervailing federal tax effects for recipient firms.

Finally, in the case of short-distance relocations, economic developers should consider the effects on neighboring jurisdictions, and thereby reduce incentives-driven “border wars” where firms move short distances without creating new spending.89

Include Indirect and Induced Effects

One of the most important reasons that communities offer incentives is to create indirect and induced spending. Indirect spending occurs when firms make purchases at local suppliers and when their workers buy goods and services with their wages. Induced spending occurs when the firms that benefit from indirect spending in turn make purchases and hire more workers as a result of increased demand. Thus, a firm’s relocation to the community creates multipliers of spending, jobs, and tax revenue. While an abatement or grant may reduce one form of tax revenue, such as property taxes paid by the

88 Morgan, “Analyzing.”
business, indirect and induced spending will increase other tax revenues such as sales, income, and payroll taxes. Multiplier effects must therefore be taken into account in ROI calculations.

It is also necessary to consider the indirect and induced costs of new projects. In addition to the direct costs of a new corporate facility, such as sewers and roads, growth through indirect and induced spending may also create new service demands, such as for any education, healthcare, and public safety programs required to serve workers of the business who move into the community. These effects can be difficult to estimate; however, the fiscal impact analysis tool offers several methodologies that allow for better quantification of their effects, and thus, more accurate ROI calculations.

Consider Market and Price Effects

Many methods of accounting for spending and costs, including indirect and induced, assume that prices and wages remain constant. However, direct, indirect, and induced spending can all affect local markets for goods, housing, and labor, and thus change prices in complex ways. Such effects are difficult to model, and require complex econometric calculations that are often times beyond the resources of EDOs serving smaller markets. However, economic developers can also consult economists from banks, universities, housing authorities and labor boards to consider possible effects on macro indicators, such as housing and labor prices.

Macro effects are especially important to consider when the companies that are applying for incentives are large businesses that have the potential to substantially alter local economic conditions. On the positive side, such businesses can become “catalysts,” serving as anchors helping to drive the economy in a community. The long-term effect may be that they help to retain or attract other smaller businesses that support them as suppliers and service providers.

Another market effect that economic developers cannot ignore is the impact that new entrant firms will have on locally-existing, competitor firms. First, EDOs should analyze whether incentive target firms will primarily export goods or whether they will cater to the local population. This analysis should investigate the capacity for growth in the market for the goods or services produced by the new business, as well as the potential that goods and services purchased by other local suppliers might be replaced with products from the new firm (displacement or substitution).

The entrance of an exporter firm will likely be beneficial as a new economic driver, whereas a new local service provider that will cater to the local population could be damaging, especially where there is

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90 Morgan, “Analyzing.”
91 GFOA, “Evaluating.”
already plentiful supply and weak demand.\textsuperscript{92} EDOs should poll their community’s existing business leaders about attitudes towards the entrance of possible competitors.\textsuperscript{93} This is often done through an open public hearing process where the community is given an opportunity to comment on the proposed incentive.

Often, businesspeople will be enthusiastic about financial inducements to bring related firms into the community. However, new firms may also compete with existing firms, even for export business. Especially when it would reduce one business’ land, tax, or labor costs, awarding an incentive to a new business can alter, usually negatively, the business fundamentals of the marketplace. The typical argument is that the incentive given to the new business will create an “uneven playing field” in terms of their cost structure, and therefore, a market advantage in pricing products or services.

**Account for Intangible Effects**

Many new investments create effects on the local economy whose value is difficult to quantify. Non-financial or intangible economic benefits include increased economic diversity, improved community exposure, the creation of a business-friendly atmosphere, and induced tourism.\textsuperscript{94} Another intangible benefit furthered by effective incentives is the clustering effect, in which new corporate investments attract further private investment and workers with industry-specific expertise.\textsuperscript{95} For example, some incentives target original equipment manufacturers (OEMs), whose presence attracts firms in the OEM’s supply chain to the locale. Evaluating the scale of this effect can be difficult. Costs can also be intangible -- increased congestion is an oft-cited effect of growth on which it is difficult to place a cost value.\textsuperscript{96}

Another class of impacts does not have any evident economic value, but may nonetheless be considered costs or benefits of a new project. These non-economic benefits can include increased civic pride, a renewed sense of community and enhanced corporate citizenship. Non-economic costs may include increased pollution, reduced safety, or community disruptions.

By their nature, intangible and non-economic benefits and costs are difficult to quantify. However, economists have generated several innovative ways to place value on these effects. One such method is to search for proxies, or quantifiable measures whose traded value tracks the increase in the value of the effect itself. The social return on incentives calculation uses proxies to explicitly model intangible


\textsuperscript{93}Kenyon et al., “Rethinking.”

\textsuperscript{94}Meyers Norris Penny, *Economic and Social Impacts of the Florida Film and Entertainment Industry Financial Incentive Program*, 2013; MASC, “Incentives.”

\textsuperscript{95}Kenyon et al., “Rethinking.”

\textsuperscript{96}Saskatchewan Economic Development Association, “The Basics of Economic Impact Analysis.”
and non-economic effects. Deciding which impacts to include and the ways in which they will be computed is often a matter for consultation with stakeholders.\textsuperscript{97}

**Correct for Double Counting**

In general, the ROI calculation should only count each benefit and cost once per occurrence. \textit{Double counting} occurs when this principle is not upheld. For instance, if wages are counted as a benefit, workers' local spending \textit{cannot} be counted as an additional benefit because these are two ways of accounting for the same funds. In practice, there are many situations in which it is difficult to detect if double counting is occurring. The best practice to reduce double counting is to select at the outset whether effects will be measured as incomes, spending, or tax effects. Another related concern is to consider impacts according to category or type, for example the category “infrastructure,” and then to chronicle all associated costs \textit{and} benefits of that category or type.

**Compare with Alternatives**

The ROI of a particular investment can best be understood when it is compared against other investments and alternatives. ROI comparisons could be made with:

- Other incentives in the same program
- Incentives in other local programs, where applicable
- Comparable incentives programs in other jurisdictions, where available
- Non-financial incentives
- Broad tax cuts worth the same amount as the incentive

An EDO should also considering constructing \textit{counterfactual} analyses that model the situation where a community did not offer the incentive.\textsuperscript{98} These comparisons can help EDOs to understand the effectiveness of their incentives programs in relation to other programs. These comparisons can be facilitated by keeping a centralized database of incentive program evaluations.

**Calculate Return on Investment**

This section offers several ways to calculate Return on incentives (ROI), a concept based on the return on investment calculations widely used by the private sector. ROI is an output that demonstrates the

\textsuperscript{97} Cabinet Office of the Third Sector (UK), “\textit{Social Return on Investment: An Introduction},” 2009.

\textsuperscript{98} ICA, “Maine.”
effectiveness of an incentive by comparing its costs and benefits, and can be expressed as a net present value (NPV), internal rate of return (IRR) or other measure. ROI can be used at both the individual recipient level, to assess incentive applicants and to review the effectiveness of existing incentives agreements, as well as to comprehensively review an incentives program to demonstrate its effectiveness to stakeholders. The following four calculations—namely Economic Impact Analysis, Fiscal Impact Analysis, Cost-Benefit Analysis, and Social Return on Incentives—are ordered according to their complexity, comprehensiveness, and accuracy. As ROI calculations are often complex, undertaking them may require staff training, cooperation among multiple government departments or agencies, and the use of independent auditors or reviewers.  

Economic Impact Analysis (EIA)/ Input-Output Modeling

Economic impact analysis (EIA), of which the best-known type is input-output modeling, is a calculation of how a new spending from an investment flows through an economy. First, financial outlays flow directly to the site of the investment, and then indirectly to supplying firms, and finally, on an induced basis, to workers spending their wages on consumer goods. Through these effects, cash may cycle several times through an economy, resulting in multipliers.

The benefits to an economy by multiplier effects are limited by leakage. As firms import goods from other locations, workers spend their wages in other jurisdictions, and both firms and consumers save parts of the income.

The multiplier for a new investment illustrates its effect on local spending. To calculate the multiplier, the economic developer requires detailed data on the spending patterns of both the potential investment recipient and upstream firms. This data is often contained in input-output tables. To fill the need for complex calculations, software applications such as RIMS II, IMPLAN, and REMI have been developed.

Though often used to project future spending impacts, EIA can also be used to analyze the effect of incentives that have already been committed or awarded. EIA does not directly address the issue of whether private investment would have occurred but for the incentives, however gross EIA impacts could be multiplied by an estimate of the proportion of private investments that are attributable to incentives. For instance, assuming that investments would not have happened but for the incentive in

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99 Renault and Poole, “Prove It!,” 29.
100 SEDA, “Basics.”
101 SEDA, “Basics.”
102 SEDA, “Basics.”
half of the incentive awards, a gross EIA estimate that a new facility will produce $10 million in indirect and induced spending would yield a net spending effect attributable to the incentive of $5 million.

Because EIA invariably produces a positive multiplier effect, it is useful to compare the multiplier of competing projects to decide which incentives to award. 103 A non-incentive economic development case illustrates this well. Though officials in Denver projected that a new baseball stadium would produce multimillion dollar spending impacts using EIA, it compared unfavorably with a similarly-priced convention center that was projected to create 10 times more spending. 104

It is also important to note that most EIA models do not account for market, price and competition effects. Instead, EIA models extrapolate data from existing spending patterns, failing to distinguish between spending that would not have occurred and spending that is displaced from elsewhere in the community. EIAs are thus best suited for analysis of small and medium-scale projects that closely resemble facilities already present in the community.

EIA also does not present the effects of an incentive investment on local budgets, nor does it account for intangibles, such as media exposure or clustering— the effect by which investments in a business sector tend to attract further investment. Cost-benefit analyses and measurements that consider social returns on incentives are better suited for these tasks. 105

Cost-Benefit Models

A more thorough group of tools than EIA, which more closely resembles how businesses consider return on investment calculations, are cost-benefit models. Cost-benefit models include fiscal impact analysis (FIA), cost-benefit analysis (CBA), and social return on incentives (SROI). These models account for the temporal incidence and duration of the costs and benefits of a project, unlike an EIA, which models spending only at one point in time. Cost-benefit models also incorporate discounting into the equation. The general equation for cost-benefit models is as follows:

$$\text{ROI} = \left( B_1 - C_1 \right) \left[ D_1 \right] + \left( B_2 - C_2 \right) \left[ D_2^2 \right] + \ldots + \left( B_n - C_n \right) \left[ D_n^n \right]$$

$$\left[ C_1 \right] \left[ D_1^1 \right] + \ldots + \left[ C_n \right] \left[ D_n^n \right]$$

Where B is aggregate benefit, C is aggregate cost, D is the discount rate, and subscripts represent the year when these effects occur.

103 John L. Compton, “Economic Impact Analysis of Sports Facilities and Events”. While the other calculations presented here are best used to compare alternative investments, FIA, CBA and SROI can project negative returns, which EIA cannot.

104 Compton, “EIA.”

105 SEDA, “Basics.”
**Fiscal Impact Analysis (FIA)**

Fiscal impact analysis is used to calculate the changes in costs and revenues to a government budget as a result of a financial incentive.\(^{106}\) Specifically, FIA is a “projection of the direct, current and public costs and revenues associated with residential or non-residential growth to the local jurisdiction(s) in which the growth is taking place.”\(^{107}\) The output of an FIA is a dollar figure, representing the net difference between discounted costs and revenues associated with the project targeted by an incentive over a given analysis timescale which can be up to 30 years.\(^{108}\)

A positive output indicates that an incentive and the private investment it spurs will create net revenue, allowing service quality to be enhanced, reserves to be generated, or taxes to be reduced; a negative output indicates that as a result of a project, taxes will need to be raised, reserves used, or services cut.\(^{109}\)

Because incentives investments are usually made by abating, exempting or crediting publicly collected taxes, FIA is the closest public-sector analog to the private-sector ROI. FIA is credited with replacing emotional fear in some communities about growth with realistic discussions of the costs and benefits of incentives.\(^{110}\) In general, the fiscal impacts of an incentive-funded project depend on:

- The characteristics of a recipient project, including its need for services
- Whether a community's tax structure leaves businesses over- or under-taxed, relative to the services they consume
- The proportion of a project's workers who reside in the jurisdiction and the proportion who will commute
- Characteristics of services in the community, including capacity and the need for capital investment

Estimating the revenues from an incentive-receiving project in an FIA is relatively straightforward. The economic developer needs data about the property-specific data including the value and size of the land and the proposed square footage of the facility and local property value data and the tax rate on various types of property. For example, if a new plant will have an assessed value of $100 million, the tax rate on commercial property is 0.5 percent, and the incentive abates half of property taxes, then the benefit to be entered under new tax revenue is $250,000. For FIAs based on sales, income, or payroll taxes, information on these attributes will also be required.


\(^{110}\) Kotval and Mullin, “FIA.”
The major challenge to completing an FIA is to estimate costs, which requires an understanding of how an incentive-receiving project will affect the demand for local services. For example, a facility constructed with incentives may directly require services and new capital infrastructure, such as new roads and sewers. The location of a new facility within the jurisdiction can substantially alter local servicing costs.111

Additionally, new residents attracted to the community as employees of a new business will also require services and infrastructure, so the EDO should estimate the likely commuter versus resident composition of the workforce. Estimating residential services costs requires an understanding of the cost structures of major residential budget items, such as utilities, schools, conservation, health, public safety and debt servicing.

There are a number of methods to calculating service demand, which vary in complexity, data requirements, and accuracy. The most straightforward method is the average costs per taxpayer, which is based on observed costs in the jurisdiction or in similar communities. This method amounts to an analysis of the relative distribution of the burden of taxation. If businesses generate more revenue than the cost of the public services they consume, then the average cost method will yield a positive result, so long as the project is not granted an incentive greater than the difference between average business tax receipts and costs.

In most American localities, commercial properties generate more revenue than costs. One study found that commercial and industrial land uses generated a dollar of municipal revenue for every quarter used in costs.112 However, the average cost method is limited in that it concentrates on inputs -- the existing costs of services-rather than on outputs or the actual expenses and revenues that will occur as a result of development.

A more sophisticated method of FIA is marginal costing, a technique that has been recommended for its accuracy in estimating the effects of projects benefitting from incentives.113 In the marginal cost method, in-depth interviews are conducted with government officials, usually department heads, to determine where peak and excess services capacities exist and whether capital spending would be needed as a result of a new project.

Compared with the average cost method, the marginal cost method better recognizes how new projects can affect demand and supply for services, especially when they do not fit the community’s average.114

112 American Farmland Trust.
113 Kotval and Mullin, “FIA.”
114 Kotval and Mullin, “FIA.”
Due to the complexity of the marginal cost method, a blended method might be used where marginal costs are estimated for expenses related to the largest portions of the budget, for example, education and public safety, while average cost could be used for smaller inputs.\textsuperscript{115}

FIA can be an effective tool for determining fiscal revenue effects, but like EIAs, they have a number of limitations. First, they will not automatically answer but-for/additionality questions, though they can be modified to take into account the probability that an incentive has been influential in attracting a new business. Moreover, they can be useful for investigating individual investments, but because FIAs assume that cost and revenue structures in the future will resemble the present-an assumption strained over longer periods and larger projects-they can be less useful for evaluating entire incentives programs.\textsuperscript{116}

FIAs also omit a number of factors. As each FIA deals with only one jurisdiction, the fiscal impacts on overlapping local jurisdictions, such as counties, fire districts, and school boards are overlooked unless multiple FIAs are conducted in tandem.\textsuperscript{117} Additionally, by definition, FIAs only account for government costs and revenues. Thus, FIAs may ignore critical investment criteria such as wage levels at a new facility. Finally, FIA does not account for indirect and induced effects, market, and price effects, or social and environmental impacts.\textsuperscript{118}

\textit{Cost-Benefit Analysis (CBA)}

A cost-benefit analysis in many ways resembles an FIA, but widens the scope from budgetary implications to account for all community-wide benefits and costs. CBA is often simpler, but less accurate than FIA, because it is more difficult to effectively delimit a scope of analysis. In a cost-benefit analysis, budgetary, non-budgetary economic and intangible economic costs and benefits are included in a discounted cash flow analysis. The output of a cost-benefit analysis is a net present value (NPV) of the investment. A negative NPV suggests a rate of return below the discount rate.

\textit{Social Return on Investment (SROI)}

SROI analysis is a modification of the CBA methodology that takes into account factors typically omitted in CBA-namely social and environmental impacts of a new business development. Social benefits can include increased civic pride and corporate engagement. Social costs typically include factors like increased traffic congestion, safety concerns, increased pollution, and disruption of local lifestyles.\textsuperscript{119}

\textsuperscript{115} Charles B. Kennington, \textit{The Virginia Economic Development Partnership Local Return on Investment Model}, 2011.

\textsuperscript{116} Harrison and French, “Introduction.”

\textsuperscript{117} Watkins, “Fiscal.”

\textsuperscript{118} Harrison and French, “Introduction.”

\textsuperscript{119} Compton, “EIA.”
SROI attempts to put monetary values on these non-economic impacts by using financial proxies, measures that track the increasing or decreasing value of these intangible factors. SROI allows for incentives to be measured based on social goals. For example, some economic development incentives may be aimed at revitalizing downtowns, protecting historic structures, improving environmental sustainability, or reintegrating disenfranchised workers into the labor force. While some incentives with social goals may show poorer performance in terms of job creation or FIA, SROI can offer a demonstration of the enhanced social benefits of certain incentive programs.

Case Studies

Maine

The state of Maine has conducted several reviews of its incentives using discounted cost-benefit analysis. One of the most striking aspects of the Maine program is its foresighted budgeting of resources for evaluation. One percent of the value of Maine’s incentives is set aside for the purposes of review and evaluation.

The state commissioned a “Comprehensive Evaluation of Maine’s Economic Development Incentive Programs“ in 2014 from an independent consulting firm. This evaluation used an FIA model, constructed using federal and state data sources, which considered how incentive programs affected income and dividend tax receipts from the state’s residents and sales and payroll taxes collected by business. The model also determines how incentives affect non-recipient companies as a result of both indirect purchasing and increased competition. The model also considers a “counterfactual scenario” in which recipient companies do not receive the incentive.

Evaluating several programs, the review found that Maine’s incentives had internal rates of return ranging from negative 22 percent to 19 percent. Thus, the review allowed for an effective side-by-side comparison of different incentive programs on the same basis of evaluation. The report also examined the design of comparable programs in the neighboring New England states.

Evaluators also used a sensitivity analysis to consider whether investments would have occurred as a result of one program, the Pine Tree Development Zone, but for the incentive. They found that the program produced internal rates of return, a measure of ROI, ranging from -22 percent if the incentive produced no additional investment to 125 percent if all investment in the zone was attributable to the

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120 Third Sector, “SROI.”
incentive. The review also estimated a break-even point for the incentive, if a quarter of projects would not have invested but for the incentive.

After analyzing the state’s overall competitiveness, the 2014 report made several design recommendations to increase the ROI of Maine’s incentive programs. These suggestions included measures to:

- Improve outreach and marketing about incentives to Maine companies
- Increase the alignment of incentive program design with state strategic economic development objectives through narrower targeting of high-value firms
- Clarify and increase the certainty of what companies will be awarded incentives
- Simplify the application process for incentives recipients
- Strengthen investment criteria with an increased emphasis on performance
- Improve the accuracy of job and investment projections
- Standardize corporate data disclosure requirements and metrics between incentive programs
- Use clawbacks more consistently
- Refine the state’s ROI model
- Centralize both the promotion and storage of information on the state’s incentive programs
- Secure adequate financial support for annual evaluations
- Establish firm stakeholder and corporate expectations about monitoring, evaluation, and reporting
- Explore alternative economic development measures such as tax reform

Maine’s most recent incentives evaluation is available on the state’s website, at http://www.maine.gov/decd/reports-pubs/pdfs/Maine%20Comprehensive%20Econ%20Dev%20Evaluation%202014.pdf

Florida

The state of Florida has adopted many controls to ensure that it receives a high ROI on its incentive investments. The primary state-level EDO, Florida Enterprise, publishes an in-depth annual report on incentives recipient. A state department completes a regular comprehensive review of the incentive programs including a calculation of program ROI.

Applicants for Florida Enterprise’s incentive programs are first vetted with an internal analysis of the company’s and project’s risk profile. This analysis is complemented by a separate risk analysis performed by Florida’s Department of Economic Opportunity. Applicant companies are vetted for credit risks, such as past insolvency, and regulation risks, such as criminal convictions of executives or history of incentive conditions non-compliance. Once an applicant has been approved and formal incentive criteria have
been met, incentives are granted. The state places incentive funds in escrow until firms submit documentation that they have met performance goals.

Additionally, the state maintains the right to use clawbacks of either partial or total repayment of the incentive plus interest. As a tool of enforcement, incentive agreements in Florida include a provision to place a lien on noncompliant businesses.

All non-confidential information on incentive recipients is aggregated on Florida’s Economic Development Portal, one of the first in the country to allow easy searchable access to data about incentives awards recipients’ identities, locations and amounts.

This information is also published in an annual incentives report that lists the number of applications for incentives received, the number of recommendations made, and the number of incentives approvals.

For each company that has entered into an agreement with the state or been paid incentives based on performance, the report lists its business sector, capital investments, jobs created, average annual wage, and local and state support. Particular emphasis is placed on companies that have received multiple, or “stacked” incentives. Information is also presented on the proportion of incentives that have been invested in state-designated distressed areas.

In 2013, Enterprise Florida commissioned an audit of its internal incentive reports from accounting firm Ernst & Young. Enterprise Florida’s Incentives Reports and the Ernst & Young report are publicly available on the EDO’s website, http://www.floridajobs.org/business/EDP/EconomicDevelopmentIncentivesReport.pdf

Florida’s Office of Economic & Demographic Research is mandated to evaluate the ROI of Florida’s incentive programs on a three-year cycle. The agency uses EIA to measure indirect and induced gains that are result from state incentive investments. The EIA uses a general equilibrium model that estimates supply-side changes such as investment and labor. A notable feature of the report is its detailed description of the model and its key assumptions, allowing readers to more carefully follow the agency’s calculations.

Many incentive projects failed the but-for criteria because they were already tied by market or natural resources to Florida. However, the most recent report noted that the state’s highest performing incentive programs shared a number of common elements:

- High capital investment criteria, ensuring the creation of low-leakage construction activity
- High permanent job wage requirements

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• They were made in target industries that use local suppliers and have high overall multipliers

The report goes on to explain that certain special incentives that appear to have lower returns often have social purposes, as in the state’s Enterprise Zones and Brownfields Incentives -- or expected long-term payoffs, such as the state’s Innovation Fund.
Appendix: Types of Incentives

Customized job training: The state or community pays a portion of the costs incurred in developing or delivering a specialized job-training program, generally at a community college, for a particular recipient company. Customized training can reduce labor costs and increase productivity for recipient businesses.

Deal closing fund: A fund that can provide grants, loans, or other forms of financial assistance where other incentives will otherwise be insufficient to secure an investment.

Deferred interest loan: A loan in which the borrower is not obligated to pay interest so long as they meet terms of an Incentives Agreement.

Discounted loan: A loan in which interest is charged below the rate available in the private loan market.

Export promotion: A form of non-financial incentive in which technical assistance is offered to companies hoping to expand their exporting activities.

Equity investment: An EDO or government provides financing in exchange for an ownership position in a company.

Enterprise zone: A designated area, usually distressed, in which companies are eligible for tax incentives, regulation abatements, technical assistance, job training, reduced utility costs, or accelerated depreciation.

Expedited permitting: A selected project is given priority in the processing of necessary approvals. A common non-financial incentive.

Fee exemptions: A recipient company is exempted, in full or part, from building permit and development impact fees associated with new construction.

Forgivable loan: A loan whose principal is forgiven if the borrower meets Incentives Criteria for an agreed-upon period.

Grant: An outlay of funding provided through budgeted programs for economic development purposes.

Guaranteed loan: A loan covered by a legally binding agreement under which the guarantor agrees to pay any of the amount due on a loan instrument in the event of borrower nonpayment. May be used on behalf of applicants that would otherwise have difficulty securing private financing.

Industrial development bond: A tax-exempt bond issued by the public on behalf of a manufacturing company; usually limited to a value of $10 million.
**Infrastructure**: Infrastructure improvements that are required by either zoning or for effective operations, such as streetscaping, road construction, and parking, are publicly provided. Infrastructure improvements constitute an incentive if the private sector is usually responsible for these improvements.

**Land write down**: The public sale of land for less than its market value; the difference between the land’s actual or acquisition value and its sale price constitutes an incentive.

**On-the-job-training grant**: A form of workforce training incentive in which a public agency pays a portion of new workers’ wages for a set period of time.

**Revolving loan fund (RLF)**: A pool of capital in which the funding is recycled to provide future financing. Ideally, the loan pool will remain stable or even grow with the interest payments of each generation of borrowers. RLFs are often used to finance activities that are unattractive to conventional lenders. RLFs provide more favorable lending conditions such as lower interest rates and longer terms. RLFs can also be used to guarantee portions of loans made by conventional lenders.

**Tax abatement**: A reduction or exemption from a particular tax, such as property, income, or sales tax. Usually given incrementally for new assessment as a result of private investment.

**Tax credit**: After a specific tax, such as sales tax, has been paid, a credit is issued that can be used to offset future tax liabilities. Many tax credits are aimed towards special purposes, such as historic building rehabilitation or the construction of low income housing.

**Tax exemption**: A reduction or exemption from a particular tax, such as property, income, or sales tax. Usually given incrementally for new assessment as a result of private investment.

**Tax increment financing (TIF)**: In a TIF, a bond is issued to finance public infrastructure development such as parking and road improvements as well as private improvements such as feasibility studies, property acquisition, environmental remediation, and project financing. The TIF then captures incremental future tax revenues, beyond an initial base, from rising property values to pay bond debt.

**Tax rebate**: After a specific tax, such as sales tax, has been paid, a credit is issued that can be used to offset future tax liabilities. Many tax credits are aimed towards special purposes, such as historic building rehabilitation or the construction of low income housing.

**Technical assistance and research**: A non-financial research where EDO staff resources are used to provide customized assistance or research for prospective investors.
More than MONEY
Alternative Incentives that Benefit Companies and Communities
More than Money:

Alternative Incentives that

Benefit Companies and Communities

June 2, 2014
International Economic Development Council

The International Economic Development Council (IEDC) is a non-profit membership organization serving economic developers. With more than 4,400 members, IEDC is the largest organization of its kind. Economic developers promote economic well-being and quality of life for their communities, by creating, retaining and expanding jobs that facilitate growth, enhance wealth and provide a stable tax base. From public to private, rural to urban, and local to international, IEDC’s members are engaged in the full range of economic development experience. Given the breadth of economic development work, our members are employed in a wide variety of settings including local, state, provincial and federal governments, public private partnerships, chambers of commerce, universities and a variety of other institutions. When we succeed, our members create high-quality jobs, develop vibrant communities, and improve the quality of life in their regions.

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Economic Development Research Partners (EDRP)

The EDRP Program is the “think tank” component of IEDC, designed to help economic development professionals weather the challenges and grab opportunities from economic changes affecting our communities. EDRP members are leaders in the field of economic development, working through this program to improve the knowledge and practice of the profession.

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The Right Place, Inc.
Towson University
Tulsa Regional Chamber
York County Economic Alliance
Acknowledgments

We would like to thank a number of people for their insights and support of this project. The Economic Development Research Partners (EDRP) program provided the impetus and resources for this project. In particular, we thank the Alternative Incentives Taskforce members for their time and guidance in the report’s development. Many thanks to:

- Kenny McDonald, Columbus 2020! (Chair)
- Julie Engel, Greater Yuma Economic Development Corporation
- Kurt Foreman, Greater Oklahoma City Chamber of Commerce

Special thanks to Gene DePrez, Senior IEDC Fellow for his contributions in the development of the survey, leading facilitated discussions with practitioners, and in reviewing several drafts of the report. We also thank Emily Brown, Economic Development Associate at IEDC for her contributions in the development of the survey.

We would also like to thank the economic development practitioners who participated in the survey, follow-up focus group discussions as well as informational interviews while developing the case studies. Although too numerous to thank individually, we appreciate you taking the time and sharing such useful information with us. This paper would not be possible without your support.

Lastly, we would like to thank Jeffrey Finkle, CEcD, IEDC’s President and CEO, for his support throughout this project.
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Executive Summary

Economic development organizations (EDOs) provide incentives of various kinds for business attraction and expansion. The vast majority of such incentives are financial — i.e. tax breaks, grants and loans that communities offer to businesses as a direct subsidy. A fast-evolving alternative focuses on incentives that are not direct subsidies, and help not only the businesses but also the community. They are called alternative incentives.

Alternative incentives are an EDO’s means of assisting businesses aside from purely financial subsidies. Such incentives reduce the risk or cost of doing business in a community. If a business shuts down or leaves, the investment stays behind in the community and another business can take advantage of that asset. Examples of alternative incentives include workforce development programs, customized research and data, infrastructure improvements, among others.

Sponsored by the Economic Development Research Partners program, this paper explores different types of alternative incentives used by EDOs and advocates for their increased use either alone or in conjunction with financial incentives. This research shows that alternative incentives can be an effective strategy for business attraction.

Underpinning the main findings and recommendations in this report is a survey conducted by the International Economic Development Council in March 2014. A brief literature review and detailed information interviews with practitioners were also conducted. Alternative incentives are divided into five categories: research, real estate, talent/workforce development, networking/promotion, and infrastructure.

The main findings from the survey are as follows:

- Most of commonly used alternative incentives are considered “typical economic development practice”
- Alternative incentives can be effectively used, though they are more commonly used in conjunction with other financial incentives
- Organizational type and structure don’t impact the types of alternative incentives used
- Incentives is a local game

The main recommendations from the study are as follows:

- Focus on Building Relationships
- Examine your Organization’s Strengths and Utilize Them Creatively
- Offer a Wide Spectrum of Services
- Bring Along the Key Stakeholders
- Focus on the Needs of the Community
Introduction

Incentives are a highly debated topic in economic development, yet incentives are among the most important tools used to entice businesses to come to a location. As Steven Levitt and Stephen Dubner argue in a New York Times article, “Economics is, at root, the study of incentives: how people get what they want, or need, especially when other people want or need the same thing…. An incentive is a bullet, a lever, a key: an often tiny object with astonishing power to change a situation.”

Many economic development programs are incentives of different types to help businesses and jobs grow locally, such that the benefits accrue not only to the businesses but also the community.

In the economic development lexicon, incentives typically mean financial incentives – i.e., tax breaks, grants and loans that communities offer to businesses as a direct subsidy. Critics maintain that there is no proven correlation between the use of incentives and increased economic activity in a community. A recent report by the Institute on Taxation and Economic Policy (ITEP), a non-partisan research institute, states that, “tax incentives are of little benefit to the states and localities that offer them, and that they are actually a drag on national economic growth.” Several similar studies point to the shortcomings of using financial incentives as a strategy for job growth.

Yet economic development practitioners contend that incentives are a way for their communities to “stay in the game” of business attraction. It helps them to remain competitive and signals to potential businesses that they are business-friendly. In some cases, it helps communities mitigate the challenges businesses face in one community that they wouldn’t in another. A fast-evolving alternative focuses on incentives that are not direct financial subsidies. These incentives are programs that help not only businesses but communities as well. These are called alternative incentives, also known as nonfinancial incentives, non tax incentives or inducements.

Alternative incentives are an economic development organization’s (EDO) means of providing business assistance separate from purely financial incentives. Most of these are programs or investments that decrease the cost or risk of operating a business in that community, but that also stay behind if the business

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shuts down or relocates to another community. Such incentives can include transportation and logistics investments, workforce training programs, and efficient permitting processes, among others. Many successful organizations use a combination of financial and alternative incentives for business attraction (explored in more detail later).

Sponsored by the Economic Development Research Partners (EDRP) program, this paper explores the different types of alternative incentives EDOs use in business attraction and how they are successfully utilized by EDOs. This paper does not argue against the use of financial incentives; rather, it advocates for increased use of alternative incentives either alone or in conjunction with financial incentives.

What is an alternative incentive?

There is uncertainty surrounding what constitutes an alternative incentive. If these incentives are everything other than financial incentives, the argument can be made that essentially everything that an EDO does has a cost attached to it, such as staff hours, forgone revenues, and more. Therefore, everything is a financial incentive.

The distinguishing factor between financial and alternative incentives is whether the incentive benefits a single company or the community at large. For example, a workforce training program will benefit potential workers and residents in the community while also helping the business find people to hire with the desired skills. In the event of the business downsizing or shutting down, the workers can remain in the community and be hired by other businesses.

In-kind services can also be considered alternative incentives. Therefore, although expedited permitting processes and customized research will only benefit the business that is utilizing the alternative incentive, it helps improve the overall business climate of the community and its competitiveness in general.

Alternative incentives fall into five main categories:

- **Talent / Workforce development**
  Access to skilled and talented workers is considered the number one criteria for site selection decisions today, irrespective of the industry. Businesses also need to make sure that they have access to training programs so that their workers can keep up with the pace of innovation and technological change. Labor market analysis, ability to offer customized job training, and connections to local training programs are some alternative incentives that communities can offer that also meet important business needs.

- **Real Estate and Permitting**
  Streamlining a community’s planning and permitting processes is more than a question of convenience for the businesses. Prolonged processing increases the cost of development and decreases businesses’ ability to respond to rapidly changing market realities. Communities can also offer other types of real estate services, such as lists and data on available buildings, assistance with feasibility studies and more.
• **Research and Data**
  Built on economic gardening principles, communities can offer specialized data analysis services to businesses. Such services are especially valuable to those that lack the in-house capacity to conduct sophisticated analysis or otherwise cannot access specialized datasets. Also included in this category is access to community-level information, both through an economic development agency website as well as connections to current employers who can offer insights into the quality of the business environment.

• **Networking and Promotion**
  Helping incoming businesses make connections in the community is as much about customer service as it is about developing and strengthening existing clusters and local supply chains through business-to-business connections. This category also includes services such as assistance with spouse relocation, access to cluster partnerships and peer mentoring.

• **Infrastructure Improvements**
  As the price of energy increases and a product’s speed to market becomes more important, a community’s ability to connect efficiently with global transportation and logistics systems determines its competitiveness. This category also includes less expensive infrastructure improvements such as signage and streetscape upgrades, among others.

 **Don’t most communities already offer these services? How can they be categorized as incentives?**

Yes. It can be confusing to discern between what constitutes an incentive versus what is an EDO’s responsibility as described in its charter or mission. This also has ethical implications. If the EDO is supposed to work on improving the business climate of the community, and it is something that the EDO will do irrespective of whether a business is interested in locating in the community, how can it be considered an incentive for the business? A fine line differentiates the two and in most cases it is at the EDO’s discretion to identify something as a responsibility or an incentive.

In a survey conducted by IEDC for this study (discussed in more detail later), information was gathered about which services are considered to be incentives versus typical economic development practices. The survey analysis shows mixed results. In some cases it is easy to discern whether a particular service or practice is considered an incentive, while there appears to be no consensus on others.

This blurry line also can be attributed to the fact that as EDOs evolve, some practices have become more commonplace and are now considered typical economic development practice, though they might have been considered an incentive in the past. In fact, the survey results confirm this. The most commonly offered *alternative incentives* (at least for the purposes of this study) are services or practices that most practitioners identify as typical economic development practice, though many also view them as incentives.
Why should communities offer alternative incentives?

Although there are several criticisms of the practice of offering incentives of any kind, financial or otherwise, and while academic literature discusses financial incentives of all kinds at length, there is surprisingly little written about other options available to communities and EDOs. Such lack of information about alternative incentives highlights the need for practical and useful information on this topic.

The main arguments in favor of alternative incentives are as follows:

- They improve the competitiveness of a community.
- Investments are retained in the community and accrue to a larger group of stakeholders rather than a single business.
- Like financial incentives, alternative incentives also reduce the risks or costs of doing business in a community.
- Alternative incentives can be used to develop a more diversified and comprehensive incentives strategy for businesses.
- Communities may be able to save money by offering alternative incentives and reducing their reliance on financial incentives alone.

Methodology

IEDC conducted a survey of its members in March 2014 to learn about the different types of alternative incentives EDOs use. Incentives were divided into the five main categories described above with several sub-categories included in each:

- Research
- Real estate
- Talent / workforce development
- Networking / promotion
- Infrastructure

The survey received 222 responses from all around the United States and Canada, the results of which provide the basic data for this paper. The survey itself was prepared after detailed background research. Several economic development practitioners participated in focus group discussions as part of the data analysis and research on how EDOs utilize alternative incentives. This information was supplemented with case studies developed through informational interviews with practitioners and experts.

This paper is divided into four sections and an appendix. The first section introduces the topic, describes alternative incentives and presents arguments in favor of their use. The second section summarizes the data analysis. The third section includes several case studies, showcasing communities and organizations of different sizes and how they use alternative incentives. Section four concludes the paper with recommendations for economic developers. The appendix includes detailed data analysis.
What do practitioners say about alternative incentives?

An Analysis of the Data

The alternative incentives survey gathered information on more than 40 different types of alternative incentives and business services that EDOs offer for business attraction.

Below are the highlights of the survey results. A detailed data analysis of each question is included in the appendix.

Most of the commonly used alternative incentives are considered “typical economic development practice.”

The top ten most commonly provided alternative incentives are:

- Data (demographics, community resources, community assets)
- Available building/sites listings
- Detailed information on certified sites, available sites, available buildings
- Introductions to community leaders (e.g., elected officials, business leaders, professional organizations, trial club memberships)
- Permitting guidance
- Logistics assistance for touring the community and arranging meetings
- Assistance with regulatory issues (e.g., environmental, work rules, licensing, workplace safety, banking, insurance, etc.)
- Labor market analysis
- Inventory of specialized university, college or technical programs
- Peer-to-peer employer experience interviews that allow prospects to speak with other community businesses of similar size or type
- Most of these are more likely to be considered typical economic development practice than an incentive by respondents (reinforcing the difficulty of discerning alternative incentives from EDO responsibilities).

Alternative incentives can be successfully used alone, though they are more commonly used in conjunction with other financial incentives.

Just over 50 percent of the respondents reported using alternative incentives alone, whereas over 80 percent of the respondents said that they have used them in conjunction with financial incentives. When used alone, the most common alternative incentives are expedited permitting, providing research and data, and relationship-building support for the incoming business. When paired with financial incentives,
workforce development emerges as one of the most common services offered along with financial incentives.

**Organizational type and structure do not impact the types of alternative incentives used.**

EDOs of all types\(^4\) and structures\(^5\) provide the most commonly used alternative incentives. However, public-private partnerships (organization type) and autonomous EDOs (organizational structure) tend to provide a wider variety of alternative incentives, overall, than other types of organizations. PPPs are also much more likely to provide alternative incentives related to workforce development than any other type of organization. Workforce development incentives include:

- Customized job training
- Access to relevant post-secondary education career tracks in the local area
- Access to WorkKeys (ACT WorkKeys is a job skills assessment system that helps employers develop a high-performance workforce.)
- Pre-screened workforce recruitment assistance

**Incentives are a local game.**

According to the survey, counties and municipalities are much more likely to offer alternative incentives than states or regions. They also tend to offer a wider variety of alternative incentives than states or regions.

Additionally, smaller communities tend to offer more alternative incentives for business attraction than larger communities. Communities with populations of 50,000 to 100,000 and 100,000 to 250,000 are the most likely to use alternative incentives.

**Case Studies**

This section of the paper presents several examples of organizations using alternative incentives alone and in conjunction with financial incentives for business attraction and retention.

\(^4\) Categories in organization type include: autonomous EDO, economic development department within a larger organization, government, chamber of commerce, consulting firm, community or neighborhood development organization, university or academia, utility company, and other.

\(^5\) Categories of organization structure include: public entity, private nonprofit, private for profit, public private partnership, and other.
Award Winning Workforce Development Incentives – Louisiana Economic Development, Louisiana

Louisiana Economic Development (LED) is a state-level EDO that is responsible for “strengthening the state’s business environment and creating a more vibrant Louisiana economy.” While the organization has significant financial resources at its disposal, it often relies on alternative incentives to attract and retain businesses.

One of LED’s most effective alternative incentives is providing access to its FastStart program, which was named the top workforce training program in the United States by Business Facilities magazine. The program provides free customized employee recruitment, screening, training development, and training delivery for eligible new or expanding businesses. There is no application required, so the process can begin almost immediately. However, to be eligible, a company must operate within one of five industry sectors:

- Advanced or traditional manufacturing
- Digital media
- Headquarters and business operations
- Research and development
- Warehouse and distribution

In addition, the company must commit to creating a net of at least 15 new, permanent jobs for manufacturing or distribution centers or at least 50 new, permanent jobs in one of the other industry sectors.

To begin the process, an LED team works with company officials to analyze every aspect of the proposed operation. This typically includes conducting a business analysis, developing a needs assessment, or creating staffing plans. It should be noted that the company has full control over final approval of these plans.

After the analysis, LED begins identifying workers that match the company’s required skill set(s). LED identifies skilled workers through targeted job fairs, corporate recruiting services, social media campaigns, or campus visits.

LED then conducts detailed interviews, job observations, and simulations to determine the best available candidates. To recruit possible workers, LED often creates an internet landing page that includes a recruitment video and information on the area’s quality of life. Candidates are able to submit applications and upload resumes online. Once candidates are chosen, they are presented to the company, which has final say over the selection process.

Once candidates have been selected, LED designs a customized and comprehensive training program for the company. This training provides workers with both technical and soft-skills they will need to be engaging and effective. The result is more productive workers who can be quickly integrated into the
company’s workforce, thereby avoiding costly delays and on-boarding efforts. LED works with each company until the final employee is hired and trained.

For example, LED worked with manufacturers throughout the state to develop the certification for manufacturing (C4M) program geared towards skills required in manufacturing. It is offered to high school students, and at community colleges. It even accepts experienced workers looking for a career change.

LED follows up on these efforts by offering around-the-clock support. The program’s success is graded on the company’s own performance metrics as well as customer satisfaction measured through surveys completed on project completion. LED also arrange follow-up in person meetings with program participants several months later. Since it began in 2008, FastStart has assisted over 100 businesses throughout Louisiana. LED has plans to expand the program in the near future.

**Small Can Be Big – Annapolis Economic Development Corporation, Annapolis, Maryland**

The Annapolis Economic Development Corporation (AEDC) is the primary economic development organization for Annapolis, Maryland, a city of approximately 40,000 people. Because the city had a negative experience with financial incentives in the past, it now relies heavily on alternative incentives to attract and retain businesses.

Soon after the AEDC was founded in 2010, the organization began analyzing the city’s economy to determine its primary economic drivers and employment generators. Part of this effort included developing an inventory of available business spaces in the city. During the process, AEDC discovered that the vast majority of vacancies were smaller than 25,000 square feet. Thus, the city was severely limited in its ability to recruit large businesses.

Understanding their limitations, the AEDC determined that the city needed to work to promote entrepreneurism. The AEDC established the Entrepreneurs and Investors Program, an event that is held every two months to provide business education and networking opportunities. These meetings also give the AEDC a chance to regularly check in with local entrepreneurs, better follow their development, and offer assistance when possible. The AEDC hoped to have 25 people attend the first meeting, but 50 showed up. Today, 75 to 100 people attend each meeting, each of which features guest speakers who are local and national entrepreneurs.

In addition to promoting entrepreneurism, the AEDC has utilized alternative incentives to attract new businesses. In one such example, First Annapolis Consulting—a company with over 70 employees—was looking to move from its headquarters near Baltimore-Washington International Airport. The AEDC knew it would be difficult to compete against areas with less expensive land and abundant parking outside of the city, so it worked with the City of Annapolis to facilitate a reduction in parking costs for First Annapolis employees. In addition, the AEDC compiled a welcome packet for each employee that included maps, a visitor’s guide, and coupons good for discounts at local businesses. The AEDC also communicated with
company employees to promote the city’s circulator bus, which stopped directly outside of First Annapolis’s new facility. This bus now makes it easy for employees to access downtown shops and restaurants, and it was a significant selling point for the company.

In another project, the AEDC helped locate the first mid-Atlantic storefront for Cariloha, a company that sells clothing and accessories made from bamboo. The AEDC provided the company with data on community demographics and tourism. In addition, the AEDC helped the company with site location and provided permitting assistance that helped the company navigate the process quickly and efficiently.

Ultimately, the AEDC focuses on adding value in creative ways to the businesses it serves, most of which count fewer than 10 employees. Since “time is money”—especially for small businesses—the AEDC often provides permitting assistance in order to guide businesses through the process quickly and efficiently.

Although the AEDC does not provide direct cash incentives, it partners with other regional and state organizations to arrange financing for Annapolis businesses. For instance, Anne Arundel County, Maryland, offers loans to small, minority, and women-owned businesses through its VOLT Fund. The county also has a general business loan fund and a façade improvement program. The AEDC also offers access to grants from the Technology Council of Maryland and the Maryland Venture Fund from the state’s Department of Business and Economic Development.

Furthermore, the AEDC serves as a strong advocate for the local business community. When the City of Annapolis recently modified its tax credit program, AEDC provided input to make sure the local business community was receiving an equitable share of historic tax credits to help ensure the health of the local business climate.

Getting the Workers to the Companies – Hamilton Economic Development Division, Hamilton, Ontario

The City of Hamilton, which has a population of 520,000, is located approximately 40 miles southwest of Toronto along the banks of Lake Ontario. The City of Hamilton’s Economic Development Division (HED) serves as the City’s primary economic development organization. It was created in its current form in 2006 with a mission “to serve as the catalyst for continued economic growth, job creation, and revitalization in Hamilton.”

While the HED offers a wide range of economic development services, the organization is particularly adept at using alternative incentives to attract businesses to the city. One key component of these efforts is HED’s Small Business Enterprise Centre, which is located within Hamilton City Hall. The center operates as an arm of HED, and is a first-stop source for business information, guidance, and professional advice on starting and running a successful business.

The center houses lawyers and accountants, along with specialists in retail, commercial, industrial and intellectual property, who volunteer to field questions and offer advice to local businesses. The first hour of
consultation is free, while the second hour is only $20. The center also provides free office space where local entrepreneurs can host meetings and conduct business.

In recent years, HED has successfully recruited multiple inbound call centers. In one such case, American Express demonstrated an interest in locating in Hamilton. HED provided the company with pre-screened workers whose skills fit the company’s hiring criteria and then held a job fair to help the company make direct hires. In fact, HED management noted that hosting job fairs has become an effective way to connect companies with Hamilton’s skilled workforce.

HED hosts at least one job fair per year, with the largest event (which counted over 200 registered attendees in 2014) taking place each spring, within a few weeks of most college graduation ceremonies. At this job fair, 14 companies participated, representing multiple industries. The event was held at McMaster University’s Innovation Park.

HED holds additional job fairs on an ad hoc basis—for example, for a company that is looking to hire workers with a certain skill set, as in the American Express case above. In such cases, HED works with the City of Hamilton’s Community Services Department to arrange the logistics. The event often is held on the campus of a local community college or university. However, HED also has access to a large building within its local research park that offers plenty of parking. Depending on the circumstances, HED may ask the participating companies to sponsor the event. Other times, HED may provide the funding from its own budget. Both ways, the cost is relatively small, and both HED and the Hamilton community benefit when a company hires new workers.

HED promotes job fairs through its Small Business Enterprise Centre, social media, the local newspaper, and public-access television. If workers with the desired skill set are in short supply, HED has professional trainers on site for introductions to the hiring company. People have traveled up to 150 miles to participate in HED’s job fairs.

In addition, HED offers an online site selection tool free of charge. This service provides detailed information on available buildings; e.g., size, location and zoning. These listings are updated daily in order to provide the most current information possible. Once customers identify potential sites, HED representatives help connect them with business or industrial realtors. In fact, HED representatives often participate in site location trips with potential customers.

Information is Money — Kilgore Economic Development Corporation, Kilgore, Texas

Located 100 miles east of Dallas, the city of Kilgore, Texas, is home to approximately 13,000 residents. The city is served by the Kilgore Economic Development Corporation (KEDC), whose limited budget is wholly funded by a half-cent sales tax in the city. Thus, the organization must rely on alternative incentives to help attract businesses to the community.
In one such example, KEDC worked to help Skeeter Products, Inc., a boat manufacturing company, expand its facility in Kilgore to produce boat trailers. KEDC began by using NAICS codes to develop a database of potential wholesalers, retailers, and suppliers throughout the state and region. This effort convinced the company that it would have a viable market for its new product. Then, KEDC worked with local land owners to arrange for continuous acreage to be purchased for the expansion.

When it was discovered that the Texas legislature was considering new air quality regulations that would have hindered Skeeter’s ability to expand, KEDC took action to defend the company’s interests. KEDC navigated different channels—including partnering with the Texas Economic Development Council—to lobby against the state-level regulations. KEDC also authored a letter to the Texas Commission on Environmental Quality informing the body that the proposed legislation would significantly hinder one of Kilgore’s local industries.

Another KEDC success came when Tuboscope Vetco, a Houston-based company that provides a variety of oil and gas field machinery services, decided to relocate a subsidiary facility from Kilgore to a city about 75 miles away. The company’s executives in Kilgore, hesitant to move, contacted KEDC and asked that the organization research the relocation and provide a list of pros and cons. KEDC spent a significant amount of time researching transportation costs, tax rates, and each community’s access to skilled employees. When presented with these detailed statistics, the Tuboscope Vetco headquarters decided against relocating the Kilgore facility. KEDC’s effort saved 30 jobs and retained $2.5 million in investment in the community.

In addition to data and research, KEDC effectively utilizes a number of other alternative inducements. For instance, KEDC has a strong partnership with Kilgore College, and it works with the school’s workforce development program to provide customized training programs for local businesses. KEDC management emphasized the importance of workforce development initiatives to economic development in her community.

In another example, KEDC worked to locate the Surface Equipment Corporation to Kilgore. Once the company had identified a piece of property for its new facility, KEDC worked to get the agricultural land rezoned for manufacturing. During construction of the facility, KEDC worked with the local fire marshal on behalf of the company to ensure that the new building was up to code, thereby avoiding costly delays down the road.

KEDC has also served as a liaison between businesses and the local utility, the Southeastern Electric Power Company, when beneficial. The KEDC had previously facilitated utility audits for new and existing businesses, as these audits (which are often provided free of charge) can determine whether a company is eligible for a tax break because of its energy use.

Lastly, KEDC provides business owners with introductions to town leadership via quarterly luncheons. This allows local business people and political leaders to interact and get to know each other. When political leaders are able to speak with local business leaders one-on-one, they often better understand the impact of the policies they enact on businesses.

Holly Hill is a small city in eastern Florida with a population of approximately 11,700. In recent decades, the city’s economy has benefitted from its proximity to Daytona Beach, which is known as a motorsports mecca. Each year, thousands of tourists descend upon Daytona Beach for motorsports events such as the Daytona 500, the Rolex 24, the Coke Zero 400, and Daytona Beach Bike Week.

Recognizing that the motorsports industry was a natural fit for its community, Holly Hill Economic Development (HHED) undertook a strategy aimed at attracting motor vehicle-related businesses to the city. These efforts have resulted in six such businesses locating in Holly Hill over the past two years.6

One such business is Beannie’s Motorsports. In order to help recruit the business, HHED began by providing the business with detailed data on the community’s demographics, resources, and assets. This included statistics on both the number of permanent residents in Holly Hill and the significant number of tourists who visit the community each year. Then, HHED staff worked to modify an overlay district in order to allow for a motorcycle company to locate there. As a result, the owner of Beannie’s Motorsports—Whitney Van Horn—became the first female franchisee of the Tennessee-based motorcycle manufacturer, Boss Hoss.

Another successful HHED project involved locating The Car Shop in Holly Hill. This car care center, which also sells automotive trailers, won Haulmark Industries, Inc.’s “Outstanding Regional Dealer” award in January 2014. HHED worked with the local workforce development board (CareerSource) to arrange specialized training for their employees. In addition, HHED coordinated a small property improvement incentive of $25,000 to provide partial assistance with landscaping and signage.

Lastly, HHED regularly provides other alternative incentives to businesses looking to locate to Holly Hill. For instance, it is not uncommon for HHED to bring the mayor and chamber of commerce representatives together to meet with prospective businesses. In addition, HHED often arranges for business-to-business introductions and facilitates local supply chain integration.

Ultimately, Holly Hill Economic Development’s motor vehicle based marketing strategy has paid dividends for the community and its tax base. As HHED management noted, “Our businesses have been tremendously pleased with the traffic that brings in a lot of interest in the area.”

Recommendations

As is demonstrated in the case studies, all types of communities utilize alternative incentives successfully. Below are some recommendations that can help economic development practitioners use alternative incentives effectively.

6 http://www.news-journalonline.com/article/20140313/BUSINESS/140319731

More Than Money
Focus on Building Relationships

Building relationships is the best way of learning about a business’s needs and the starting point for determining how the EDO might be able to help. At the same time, EDOs must focus on building relationships with other economic development stakeholders within the community. For services and programs that EDOs may not have the ability to offer in-house, they can refer businesses to others in the community that can help.

Examine your Organization’s Strengths and Utilize Them Creatively

As organizations always look to save money, repurposing or reassigning existing resources and assets can be extremely beneficial. For example, research staff can be used to offer (or strengthen) data and research services that will benefit existing and incoming businesses. Market research is one of the most valuable services to provide to a business that is looking to relocate or expand.

Offer a Wide Spectrum of Services

Although it is highly dependent on the amount of resources available in an organization, a wider variety of services and programs ensures that an EDO is able to offer something to everyone. It is not necessary that the EDO offer everything in-house, though. The EDO should be able to connect the business to resources throughout the community and help them build relationships in return.

Bring Along the Key Stakeholders

Engaging community leaders, such as elected officials, business leaders, investors, and others – from an early stage – by educating them on the value of alternative incentives can help enrich the economic development network and the ability of the community to help its businesses. Once key stakeholders understand the reasoning and impacts of alternative incentives, they can be champions for utilizing them more effectively. Having community leaders on board also signals to the private sector that it is a business-friendly community, and local stakeholders are willing to assist as needed.

Focus on the Needs of the Community

Although EDOs would like to help every business, they are constrained by time and resources. Targeting specific industry sectors that align with the community’s overall economic development goals is an effective strategy.
Appendix – Detailed Survey Results

I. Background on Your EDO

The first section of the survey gathered information about the respondent and organization to better understand their responses later in the survey. Below are the results.

**Organization Type**
- Economic Development Organization (Autonomous): 35%
- Government: 34%
- ED Division or Department within a Larger Organization: 12%
- Community Development or Civic Organization: 2%
- Utility Company: 1%
- Consulting Firm: 6%
- University/Academia: 2%
- Chamber of Commerce: 4%
- Other (Please Specify): 4%

**Organization Structure**
- Public Entity: 50%
- Private Nonprofit: 21%
- Private For-Profit: 10%
- Public-Private Partnership: 16%
- Other (Please Specify): 3%
Organizational Jurisdiction

- municipality: 39%
- region/metro area: 21%
- county/parish or municipal district (canada): 28%
- national: 3%
- state or province: 4%
- other (please specify): 5%

Jurisdiction Population Size

- > 5 million: 6%
- 1 million - 4.99 million: 11%
- 500,000 - 999,999: 6%
- 250,000 - 499,999: 9%
- 100,000 - 249,999: 16%
- 50,000 - 99,999: 21%
- 25,000 - 49,999: 12%
- 10,000 - 24,999: 11%
- 5,000 - 9,999: 6%
- 1,000 - 4,999: 8%

Community Type

- urban: 8%
- urban/suburban: 21%
- suburban: 14%
- rural: 17%
- urban/suburban/rural: 24%
- other (please specify): 3%

Regional Location

- great lakes: 26%
- far west: 10%
- southeast: 18%
- southwest: 10%
- plains: 9%
- rocky mountain: 5%
- mid east: 7%
- new england: 1%
- canada: 5%
- mexico: 0%
- alaska/hawaii: 8%
- other: 1%
II. Prospect Service Management

Section two delved into the use of various prospect management services.

Question: Does your EDOs have a structured prospect management system in place?

Of the 48 written responses to this question, 25 respondents mentioned customer relationship management (CRM) software. Of that total, the following specific services were mentioned.

- Microsoft Excel (1)
- Executive Pulse (1)
- Salesforce (7)
- ACT (1)
- Synchronist (2)

Other responses included:

- “Prospects are assigned based on geographic origin.”
- “We rely on a firm that sifts real estate and lease needs of the national business sector.”
- “Local, state and County partners with several peer ED public/private agencies”
- “Centralized with one person who is responsible for bringing in other staff and partner organizations”
- “Retained [a consultant] to develop and help implement Bio/Life business recruitment program.”
- “Leads from government economic development agency in which they want our participation; some prospecting outreach.”
- “Each prospect is assigned to a broker depending on area of business expertise”
- “Lead generation service - we receive non-exclusive leads generated by an outside firm”

Question: Does your EDO assign an account manager (or other single point of contact) to each prospect?

Of the 19 written responses to this question, 11 cited their organization being a “one-man shop” as the reason for why their EDO did not assign an Account Manager.

Other responses include:
• “As we have a small staff (just three) two of us are designated to handle all requests to and from prospects.”
• “We are marketing to 3,000 prospects - qualified prospects get assigned a account manager”
• “Both full-time employees handle the prospects.”
• “Due to capacity issues, it is sometimes necessary to have different team members working on a project as it moves toward completion.”

Question: Does your EDO utilize customer relationship management (CRM) software?

Of the 48 written responses to this question, the following software was mentioned.

• Salesforce (23)
• Executive Pulse (7)
• Microsoft (4)
• Customized (3)
• Synchronist (2)
• ChamberMaster (2)
• Address Two (1)
• E-Sync (1)

Question: Does your EDO offer a “one-stop shop” where business prospects have access to multiple services/agencies in one place at the same time?

• “Chamber, Tourism, CVC (SBA/public lending institution), minority/diversity organization, Downtown Org”
• “Development Authority, Land Bank, Revolving Loan Fund, Heir Property Project”
• “Economic Development and Development Services (planning, permitting, etc.) in same building”

Does your EDO assign an Account Manager (or other single point of contact) to each prospect?

Yes 66%
No 34%

Does your EDO utilize Customer Relationship Management (CRM) software?

Yes 44%
No 56%

Does your EDO offer a “one-stop shop” where business prospects have access to multiple services/agencies in one place at the same time?

Yes 68%
No 33%
• “Planning, environmental health, fire marshal, zoning, building permitting and inspection”
• “As a government entity, we can provide planning, engineering, economic development, etc. services at one location/time.”
• “Economic Development, Building and Zoning, and Permitting”
• “Just developing--planning, economic development, IDA, EDC and tourism”
• “Zoning, planning and building and development”
• “Police, Fire, Planning, Building, Code Enforcement, Environmental Services”
• “Chamber, Regional Planning, Utilities contacts”
• “SBDCs, Cities, County, Chambers of Commerce and the One-Stop Career Centers”
• “City, county, public utility district, community college, private utilities, ports, department of ecology, governor’s office, department of commerce, WorkSource one stop, Job Corps, private businesses and developers, small business development center.”
• “SBDC, MEP, SBA, Main Street, Chamber of Commerce, CVB”
• “This is a very long list - Our county, our Sea Port, Air Port, 31 municipalities, Workforce Dev. Board, Universities, Colleges, Public School Board, industry organizations representing: manufacturing, information technology, marine industry and many others make-up our ED Collaborative Partnership in Broward County, FL.”
• “On occasion Chamber of Commerce, EDO, WIB , Local Gov”

III. Types of Nonfinancial Inducements

After conducting background research and consulting with economic development practitioners, IEDC staff developed a list of 41 items that were classified as alternative incentives. The list was organized according to five primary categories: Research (9 items), Real Estate (8 items), Talent/Workforce Development (6 items), Networking/Promotion (10 items), and Infrastructure (8 items). Since opinions varied as to what constitutes a alternative incentive, IEDC decided to conduct a broad survey in order to understand what practices are currently being employed in the field.

In Section III of the survey, respondents were asked to select whether they considered each item an example of a typical economic development practice, an alternative incentive, or both. The following is an analysis of the survey results from this section.

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7 IEDC used the term “nonfinancial inducements” for the survey. Although the rest of the paper uses the term “alternative incentives” to describe the same services and programs, the appendix continues to use the original term to remain true to the data analysis of the survey.
In the “Research” category, at least half of respondents said the following items were examples of alternative incentives.

- Assistance with developing an organizational strategic plan or marketing plan (50%)
- Aerial orientation by plane or helicopter (52%)
In the “Real Estate” category, at least half of respondents said the following items were examples of alternative incentives.

- Real estate advisory services (E.g., feasibility studies, financial modeling) (58%)
- Architectural/Engineering feasibility assistance (69%)
- Special signage (E.g., obtaining concessions from landlord) (61%)
In the “Talent/Workforce Development” category, at least half of respondents said the following items were examples of nonfinancial inducements.

- Access to WorkKeys (56%)
- Pre-screened workforce (54%)

“Labor market analysis” and “inventory of college programs” were largely considered to be typical economic development practice and not an incentive.
In the “Networking/Promotion” category, at least half of respondents said the following items were examples of alternative incentives.

- Inventory/reduced rates for professional services and service providers (71%)
- Integrate senior management and spouse into community (trailing spouse) (53%)
- Soft landing for foreign firms (HR, legal, cultural, educational) (62%)
- Relocation services, pro bono or discounted services (76%)
In the “Infrastructure” category, at least half of respondents said the following items were examples of alternative incentives.

- Transportation, employee shuttle assistance (69%)
- Streetscape improvements (62%)
- Public transportation passes (73%)
- Bicycle-pedestrian infrastructure (57%)

IV: Your EDO and Alternative Incentives

In Section IV of the survey, respondents were presented with the same list of 41 items that were classified as examples of alternative incentives, but this time they were asked to select the items used by their organizations. The following is an analysis of the survey results from this section.
Most respondents utilize at least one alternative incentive in the “Research” category.

Some 67% of respondents reported offering data on demographics, community resources, and community assets. In addition, 60% of respondents reported offering logistics assistance for touring their community and arranging business meetings, while 57% reported offering assistance with regulatory issues.

When analyzed by organization type, the figures show that most organizations provide research data to businesses as a means of alternative incentive.

**Percent of Organizations that Utilize Data as an Alternative Incentive**

<table>
<thead>
<tr>
<th>Organization Type</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utility Company</td>
<td>100%</td>
</tr>
<tr>
<td>Chamber of Commerce</td>
<td>80%</td>
</tr>
<tr>
<td>Economic Development Organization (Autonomous)</td>
<td>75%</td>
</tr>
<tr>
<td>University/Academia</td>
<td>75%</td>
</tr>
<tr>
<td>Government</td>
<td>68%</td>
</tr>
<tr>
<td>Economic Development Division or Department within a Larger Organization</td>
<td>67%</td>
</tr>
</tbody>
</table>
Community/Neighborhood Development or Civic Organization 50%
Other (Please Specify) 38%
Consulting Firm 31%

When grouped by organizational structure, the figures show that public-private partnerships are far more likely to provide data services than other types of economic development organizations.

**Percent of EDOs that Utilize Data as an Alternative Incentive (Grouped by Organizational Structure)**

<table>
<thead>
<tr>
<th>Organization Structure</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Private Partnership</td>
<td>86%</td>
</tr>
<tr>
<td>Public Entity</td>
<td>66%</td>
</tr>
<tr>
<td>Private Nonprofit</td>
<td>63%</td>
</tr>
<tr>
<td>Private For-Profit</td>
<td>48%</td>
</tr>
</tbody>
</table>

**B. Real Estate**

Most respondents utilize at least one type of alternative incentive in the “Real Estate” category.

The most prevalent offerings identified were: a listing of available buildings/sites (64%), information on certified sites (62%), and permitting guidance (60%).
When analyzed by organization type, the data shows that government organizations provide permitting guidance at about the same rate (64%) as autonomous EDOs (65%) and economic development departments within larger organizations (74.1%). The percentage of government organizations that provide expedited permitting (50%) is actually lower than that of autonomous EDOs (53%) and economic development departments within larger organizations (59%). A similar percentage (~50%) of these three types of organizations reported providing zoning and rezoning exceptions.

C. Talent / Workforce Development

```
Labor Market Analysis
Inventory of College Programs
Customized Job Training
Access to Post-secondary Career Tracks
Access to WorkKeys
Pre-screened Workforce
Other (Please Specify)
```

“Labor market analysis” (56%) and “inventory of post-secondary education programs” (55%) were the only examples of alternative incentives in the “Talent/Workforce Development” category that were cited by more than 50% of respondents.

Meanwhile, 36% of respondents indicated that their organization provides access to a pre-screened workforce.
“Introductions to community leaders” (61%) is the only example of an alternative incentive in the “Networking/Promotion” category that was identified by a majority of respondents.

However, 48% of respondents indicated that they provide legislative advocacy at the city, county, or state level, and 44% of respondents assist with supply chain logistics and business-to-business connections.

Percent of Organizations Providing Businesses with Introductions to Community Leaders

<table>
<thead>
<tr>
<th>Organization Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Development Organization (Autonomous)</td>
<td>74%</td>
</tr>
<tr>
<td>Chamber of Commerce</td>
<td>70%</td>
</tr>
<tr>
<td>Economic Development Division or Department within a Larger Organization</td>
<td>63%</td>
</tr>
<tr>
<td>Government</td>
<td>59%</td>
</tr>
<tr>
<td>Community/Neighborhood Development or Civic Organization</td>
<td>50%</td>
</tr>
<tr>
<td>Other (Please Specify)</td>
<td>37%</td>
</tr>
<tr>
<td>Consulting Firm</td>
<td>23%</td>
</tr>
<tr>
<td>Utility Company</td>
<td>0%</td>
</tr>
</tbody>
</table>
Respondents show that “road or rail improvements” (47%) are the most commonly used alternative incentive in the “Infrastructure” category.

The next most commonly used alternative incentives in the “Infrastructure” category are traffic studies (28%) and streetscape improvements (26%).

**Additional Inducements**

**Question:** Are there any additional alternative incentives that should be included in IEDC’s list of 41 items?

Some of the more interesting suggestions include the following:

- “Media support with a project announcement.”
- “The city offers a robust group of business development tools that includes mentoring, peer advisory boards, and seminars.”
- “Recreation options”
- “Serve on Community Advisory Boards during industrial project development and once in operation”
- “Perhaps community access for families - assistance in school integration for children, tutors, language assistance, etc.”

More Than Money
V: Short Answer Questions

Has your EDO successfully attracted a business by relying solely on nonfinancial inducements?

51% responded “Yes.” When asked to describe the nature of the incentive provided, respondents offered comments that fit, for the most part, into five broad categories.

Expediting Permitting

- “Often, expediting the process works.”
- “Expediting permitting process. Provided prospect with contact information of training services, business planning services”
- “It was more beneficial to get into their space quickly (cash flow) so we assisted with the permit and Certificate of Occupancy as the true incentive.”

Research/Data

- “Sales tax data, gap analyses, traffic counts, etc. help especially with retail”
- “Provided market information and a list of companies within a region, in a particular industry sector, to be used by the prospect in identifying potential candidates for acquisition, to establish U.S. operations.”

Relationship-building

- “Attracting a segment of a specified target industry thru marketing efforts, and providing hands-on counseling and guidance.”
- “These are only methods of business attraction, identifying and cultivating relationships with entrepreneurs.”
- “They never asked for financial incentives and we did utilize a lot of trailing spouse tours, Exec Admin Assistant tour, aggregated vendor lists for them, made introductions, etc.”
- “A high-growth, DBE-certified, professional services company elected to expand to [city] over several other cities due to strictly alternative incentives provided by [EDO]. Market familiarization, personal introductions to the business community and prospective customers, site selection, and municipal liaising with the [city’s economic development department] were delivered.”
Infrastructure

- “Company was interested in our region. Corporate management did not want to deal with all of the contracts, etc. that financial incentives require, but they located anyway based on shovel ready site and transportation access to their markets.”

Miscellaneous

- “In Canada we don’t use financial incentives and have been successful in attracting businesses.”
- “In [Canadian city], the Municipal Act prohibits financial incentives outside of Ministry Approved "community improvement areas". Therefore, most business attraction incentives in municipalities outside of Toronto offer only alternative incentives.”

Question: Has your EDO successfully attracted a business by pairing nonfinancial inducements with more traditional financial incentives?

80% responded “Yes.” When asked to describe the nature of the successful pairing, respondents offered comments that fit, for the most part, into four categories.

Workforce Assistance

- “Gap financing, combined with workforce assistance.”
- “Issues of workforce availability and infrastructure addressed along with traditional financial incentives.”
- “The typical local incentive packages include incentives offered by our workforce development organization (job screening, job fairs, WorkKeys testing)”
- “Often done with larger projects involving use of public incentives and workforce training or assistance in curriculum development at the community college level.”

Expedited Permitting

- “We have paired expedited and one stop permitting, creative infrastructure programs with traditional financial incentives.”
- “Attracted a state agency headquarters through a combination of financial incentives, new infrastructure, expedited permitting, and customized transit routes to accommodate workers”
• “One example is the successful attraction of [company] to [city]. The [company] selected [city] as their expansion site due to their eligibility for the [state’s] Quality Jobs and Industrial Tax Exemption Incentive programs paired with alternative incentives from [EDO] including market and demographic research, connections to other businesses and entities, permitting and licensing assistance, and relocation services.”

Research/Data

• “Strong data + a little financial help when necessary = happy business with good ED relationship”
• “Use of tech transfer programs usually government and or university based.”

Infrastructure

• “Expanding the target industry segment with property improvement incentives, i.e. signage, landscaping, and property façade improvements.”
• “The majority of our projects are exactly this. Infrastructure, sites, workforce information, etc. plus a financial incentive such as a performance grant, reduced lease rate, free land, etc.”

Miscellaneous

• “We have secured several relocation projects where alternative incentives were a large part of the company’s decision. However, the deal was cemented with the use of traditional incentives.”
• “We find that financial assistance accounts for about 12%-15% of total project investment, therefore while important, it is not a driving factor for the location/expansion decision. Rather, we also focus time and energy on providing assistance in other areas which allows us to build a better relationship than other communities/regions.”
• “We always use what you are describing as alternative incentives as a way to add additional assistance to the company. Being helpful is what EDO’s do”
• “We pair alternative incentives with financial incentives when there are free market barriers to accomplishing our community’s social goals such as the redevelopment of environmentally contaminated development sites such as brownfields.”

Question: Do you know of any EDOs (other than your own) that have effectively utilized nonfinancial inducements?

Do you know of any EDOs (other than your own) that have effectively utilized nonfinancial inducements?

- Yes 46%
- No 54%

Rockford Area Development Council
“Most rural areas do not have money to throw at projects”

“Montreal International for Greater Montreal”

“Carmel, IN rarely uses financial incentives, purely quality of life and environment”

“Municipalities in Ontario who are regulated by the Province to not offer financial incentives would have all used alternative incentives”

“Oklahoma City”

“Macomb County, MI”

“San Francisco, Oakland”

“Tyler TX EDC, Longview TX EDC”

“The combined incentive approach is common in Florida’s urban areas.”