The Business Incentives Initiative: Improving Economic Development

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State economic development strategies include...

Figure 1: State Incentive Grants Are One of Many Types of Economic Development Strategies Used in Virginia and Other States

State Strategies:
- Business marketing and training assistance
- Financial assistance
- Product, tourism, import/export promotion

Local Strategies:
- Land donations
- Financial assistance
- Expedited permitting

Incentive grants
- Loans and bonds
- Tax preferences
- Low-interest loans
- Incentive grants
- Tax preferences

Note: Does not include all economic development strategies in Virginia.

Source: JLARC staff analysis of the research literature.
Incentive policy is important because...

- Incentives are states’ leading tool to create jobs and economic growth.
- They have a major fiscal impact.
- The details matter.
Economic development incentives differ based on:

- How they are targeted
- How they are administered
- How they affect the state budget
From a Wisconsin Department of Commerce report:

**Flaw #2: The Program Is Biased Toward Out-of-State Labor**

*Maximum incentive earned on a $2 million salary*

A film can get 20 times more by importing a Hollywood Director instead of hiring a Wisconsin resident.
Policymakers need...

- Data on the economic and fiscal results of incentives
- Insights on how incentives can be administered more efficiently
- Recommendations for improving the effectiveness of incentives
Business Incentives Initiative

Six Participating States:

• Indiana
• Maryland
• Michigan
• Tennessee
• Oklahoma
• Virginia
Three themes

1. Data collection and management

2. Analyzing data for decision-making

3. Accountability & transparency
Initiative timeline

- **May to Aug. 2014**: Identify strengths and opportunities
- **Sept. to Dec. 2014**: Develop policy solutions
- **Jan. to June 2015**: Implement reforms
- **June to Dec. 2015**: Publish best practices manual
Stakeholders

• Legislators
• Governor’s Office
• Statewide Elected Officials
• Agency Personnel
• Chambers of Commerce
• Business Leaders
• Think Tanks
Oklahoma opportunities

- Comprehensive evaluations
- Define incentive goals
- Gather more data on incentive outcomes
- Improve revenue forecasting
Key questions for designing an evaluation plan

- What programs should be reviewed?
- What schedule should be used?
- Who will be responsible for collecting data and conducting the analysis?
What programs?

- All economic development tax incentives
- All economic development incentives (cash and tax)
- All tax credits, exemptions, and deductions
Evaluation schedules can be designed to...

- Ensure all incentives are reviewed regularly
- Focus on a limited group of incentives each year
- Review incentives with similar goals at the same time
Who should evaluate?

RECOMMENDATIONS

The Nebraska Department of Revenue has no recommendations.
To evaluate tax incentives well, you need...

- An impartial, non-partisan perspective
- Experience at economic analysis or program evaluation
- A willingness to draw policy conclusions
- Collaboration across government
Evaluations can...

- Provide independent evidence that incentives are working well
- Point to ways incentives can work better for businesses
- Help lawmakers improve the effectiveness of programs
States regularly evaluating incentives:
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