GOOD JOBS FIRST

GOODJOBSFIRST.ORG

BEGINNER'S GUIDE TO ECONOMIC DEVELOPMENT

Good Jobs First's primer for those new to economic development, subsidies, and accountability.

WHAT IS ECONOMIC DEVELOPMENT

At the most basic level, economic development is government intervention to promote private-sector commercial, retail, industrial or residential development in a specific place.

The expansion of the local economy, presumably to improve the lives of residents and build stronger communities, is at the heart of economic development.

States, cities, and counties all have departments specializing in economic development – some are in-house and others operate through quasi-governmental development agencies that function like private entitles. Economic development representatives serve as marketing reps for their jurisdictions, reaching out to court businesses and selling the virtues of the region.

But here’s the rub: Companies weigh many factors when deciding where to locate. High on the list are business basics such as such as proximity to customers, proximity to suppliers, the availability of skilled labor, the quality of infrastructure, and the supply of the key inputs needed for their particular business (water, air transport, a university research and development center, etc.). Companies also evaluate a region's quality of life, looking for good schools, safe neighborhoods, and cultural amenities that add up to a desirable place for employees to live and raise families.

That brings us to the issue of economic development subsidies. In order to attract businesses, local development officials often offer tax breaks, grants, discounted land, an expedited planning process and other subsidies to get them to locate in their communities – even though the company would likely have located there without them for all the aforementioned reasons.

Subsidies vs. incentives

Many people call subsidies “incentives,” but that's not really accurate. An incentive motivates someone to do something they would not have done otherwise. A “subsidy” is a more accurate way to describe what happens regularly in economic development, because companies get public money for projects that are central to growing their businesses and that a mountain of evidence suggest would have happened without the money. Amazon, for example, needs to grow its distribution facility to make same-day or next-day deliveries, yet it receives millions each year in subsidies.

We primarily use “subsidy” because in the vast majority of cases, it is more accurate.

What are development subsidies and how do they work?

Development subsidies are cash, tax breaks, and in-kind benefits given to companies to offset the costs of opening or expanding a new facility (sometimes, they’re given just to entice companies to stay put). Subsidies take many forms, from reduced tax rates, to cash grants, to cheap loans, to name a few.

There are many types of development subsidies, and they reduce a company’s costs in a variety of ways. Some of them reduce taxes; others are given as cash; still others save companies money by reducing the cost of construction or of borrowing capital. Common subsidies include:

- **Tax abatements** reduce or eliminate the taxes a company pays to state and/or local governments. Commonly used abatements include property tax abatements, sales tax exemptions, and inventory tax abatements.
- **Tax credits** reduce or eliminate state corporate income taxes by allowing a company to deduct a certain percentage of a specific kind of expense dollar for dollar from what it would normally owe. Examples include credits for research and development, spending on new equipment, and employing hard-to-hire workers.
- **Inustrial Revenue Bonds (IRBs)** reduce the cost of borrowing money. When local governments issue bonds, the interest on the bonds is tax-free.

Companies get what amounts to a low-interest loan.

- **Infrastructure assistance** lessens the price of construction by shifting the cost of improvements or expansion of roads, sewers, water lines, and other utilities to local governments. Improvements may be made on the project site (i.e., bulldozing existing structures or preparing land) or off-site (i.e. adding a stoplight to reroute traffic or rebuilding a bridge to accommodate heavy trucks).
- **Grants and rebates** are subsidies given as cash to companies. Usually grants must be used for a specific purpose, such as worker training. Some states and cities award grants for general use. Rebates for qualifying expenditures are used in many film subsidy programs.
- **Land-price write-downs** reduce the cost of purchasing land. A development authority (the quasi-governmental arm of state or local development departments) typically buys the land and then transfers it to a private developer for a price below the authority's acquisition cost. The local government may also pick up the tab for the exercise of eminent domain, demolition and clearance, and/or environmental cleanup.
- **Enterprise Zones** (a.k.a. Empowerment Zones, and by state-specific names such as Michigan's Renaissance Zones) are geographically designated, economically depressed areas where companies can get multiple subsidies (usually property tax abatements, inventory tax exemptions, and various corporate income tax breaks, including employment tax credits and sales and use tax exemptions).
- **Discounted utility rates** provide energy-intensive projects huge savings on water and electricity costs. These are especially problematic because they are virtually impossible to price tag, and in some cases, large companies claim the information is proprietary.

Tax expenditures vs. direct expenditures

Many of these programs are paid for through tax expenditures, tax revenue that the state (or city or county) does not collect as a result of the subsidy. Others are direct expenditures, money that the government allocates in its budget, for anything from printing stamps to buying land to enable a hospital to expand. Tax expenditures far exceed direct expenditures for economic development and are rarely tracked. Direct expenditures are part of the budget and must be approved by the city council or state legislature every one or two years.

Subsidy programs also fall into one of two categories depending on how companies qualify for them. Entitlement or "as of right" subsidies are automatically available to any company that meets certain criteria. For example, if a job training tax credit specifies that a manufacturing company qualifies for a $2,000 tax credit for each new employee it trains, then any manufacturer that meets that requirement is entitled to claim that subsidy when it files its income tax return.

Discretionary subsidies are awarded on a case-by-case basis through individually negotiated deals between governments and companies. There may be no specific criteria that a company must meet, or very broad, loose criteria that give officials a lot of discretion in determining whether a company gets a subsidy, or how large a subsidy.

In many places, elected officials make those determinations but some hand off the authority to unelected bodies.

Who decides, who pays, who benefits, who loses?

Economic development decisions are made largely behind closed doors by political and corporate powerbrokers. Although the purpose of economic development is to improve the quality of life for local residents, residents rarely have much input into what form that improvement takes or how it will be brought about.

When citizens do attempt to participate, they often find that they cannot obtain even the most basic information about the deals being considered. Those seated at the negotiating table claim that the details of subsidy talks must be

For more detailed information about specific subsidy programs, see the section on the basics of subsidy programs in the Researcher's Guide.

kept secret until the deal is sealed, or companies will bolt. The result is that a company's announcement to build in an area, accompanied by the government's announcement of a large subsidy package, is often the first official word the public hears about a development project.

CEOs, mayors, and governors use deal announcements as rosy publicity stunts, congratulating themselves for claiming to have landed badly needed jobs. What gets lost after the news cameras stop rolling is the fact that these big subsidy deals don't always yield community benefits. While development agreements lay out in detail the tax breaks and other benefits to be reaped by businesses, it is far less common for the public to get that kind of specificity for the benefits they will be receiving for their taxpayer contribution.

The number of jobs a project is slated to create is always widely touted, but the creation of those jobs may not be a binding condition of receiving the subsidy.

It is even more rare for a development agreement to include whether the jobs will pay living wages, provide health benefits, hire local residents, and be accessible by public transit; whether the project will be environmentally responsible; and whether it meets other community needs such as the creation of affordable housing or the preservation of open space.

Without binding, enforceable commitments in these areas, communities receive little for their money. There are hundreds of scandals involving subsidy abuse among corporations: companies that pocketed millions in tax abatements and then moved to another state; companies that received subsidies for job creation but created no jobs or that laid people off anyway.

What's wrong with development subsidies?

There are many problems with both the concept of development subsidies and the way in which they are typically implemented, monitored, and enforced. Criticism of subsidies and calls for reform come from both the private and public sectors, as well as from both ends of the political spectrum. The major problems with development subsidies include:

1. The process of awarding subsidies lacks transparency and public participation

Most subsidy decisions are made in private meetings, with the public only being let in on the details at the press event announcing the signed deal. The shroud of secrecy and relegation of development decisions to the domain of "experts" by companies and public officials often serves to discourage public participation. When avenues for public participation are available, such as a public hearing, they tend to be poorly publicized and announced too late for community members to organize more than a cursory response to the issues on the agenda.

2. Subsidies often lack strong requirements as to the benefits companies must produce

Increasingly, governments attach requirements companies must meet to receive the aid (performance-based subsidies) or to get refunded if the company fails to live up to its commitments (clawback provisions). That’s the good news. The bad news is, the agreements are often weak, allowing part-time, temporary and even existing workers to count toward the job creation total, and failing to require local hires or ensuring a living wage.

3. Company commitments are often poorly monitored and enforced

Requiring companies to meet certain standards to qualify for subsidies does nothing if a company's compliance with the agreement is not monitored and enforced. Many jurisdictions never check up to make sure that development projects create the jobs, pay the wages, or meet the environmental standards or investment requirements they agreed to as a condition of a subsidy. When a company is found to be noncompliant, officials are often reluctant to enforce penalties, fearing that they will be accused of being "anti-business."

4. Subsidies come with hidden costs

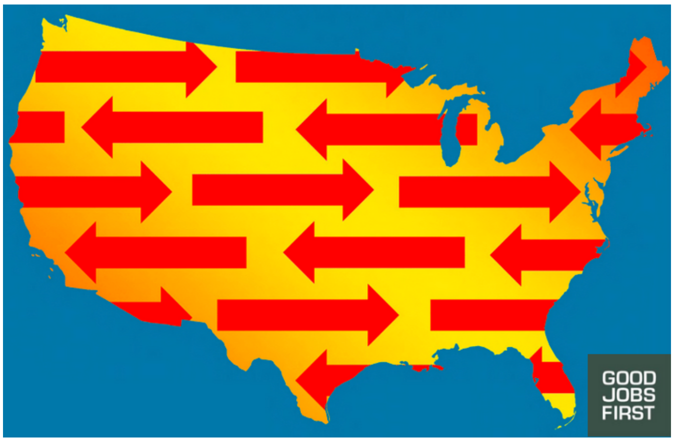
Tax expenditures -- uncollected income, sales, and property taxes -- are generally the largest subsidies companies receive. Very few jurisdictions figure out how much a subsidy deal is actually worth or track how much they are spending on subsidies in their budgets. In addition, economic development subsidies can produce hidden taxpayer costs when subsidies are giving to companies that pay poverty-level wages. In those cases, taxpayers pay twice: once for the direct subsidy, and again for programs such as Medicaid, food stamps, and housing assistance workers need to make ends meet.

5. The costs vs. benefits of subsidies to taxpayers are rarely analyzed
Public officials rarely evaluate the actual outcomes of projects against their projected impact on an area's development. In addition to getting hard figures on the costs of subsidies and better monitoring of compliance as discussed above, development officials need to assess whether the larger expectations of the project -- such as the creation of multiplier effect jobs or the attraction of other new firms to the area -- pan out. Even with that information, however, it can be hard to say what new development, including the subsidized project itself, would not have happened "but for" the subsidy, and which would have gone ahead regardless.

6. Subsidies often go to companies that would have built there anyway
Subsidies are increasingly treated as entitlements rather than enticements, both by companies shopping for the best deal and by governments trained to reach for their checkbooks at the rumor of a corporate relocation. The reality is location decisions rarely hinge on subsidies. Business basics proximity to markets, availability of labor, quality of infrastructure, quality of life, etc. -- determine where companies move. Public goods that benefit all employers are the key to a good business climate. Therefore, spending for economic development is best directed to education, skills, childcare, parks and infrastructure, not expensive, company-specific subsidy giveaways.

7. Subsidies divert money from public goods (especially schools)
Money not collected through tax breaks could otherwise go to fund schools, roads, fire departments, and preparing infrastructure for climate change. New development in an area increases the demand for such services. When large corporations avoid paying their fair share, the burden gets shifted onto working families and small businesses. The rest of us pay more, or the quality of our public services declines, or usually some of both.

8. Subsidies put local businesses at a disadvantage
Subsidies are disproportionately handed out to large companies moving into an area from out of state, giving them advantages that long-



standing, existing businesses don't get. Small business owners bear the brunt of the impact of this unfair competition. These companies may have long histories as community members and taxpayers, but it is the big corporations new to the area that get special breaks. The situation gets even uglier when governments subsidize large retailers such as Walmart or Amazon. In those cases, multi-national, highly profitable giants receive taxpayer aid to open stores, in-person or online, that compete directly with local merchants.

9. Subsidies promote an economic "war among the states"

Subsidies also fuel competition among state and local governments looking to attract large companies to their regions. Companies are experts at playing jurisdictions off one another, often with the help of professional site location consultants, who work to create bidding wars that up the size of of subsidy offers (and the size of the commission the consultants receive). The result is a race to the bottom that benefits no one but the companies.

Are development subsidies ever a good idea?

Some critics call for an outright end to the practice of subsidizing companies, while others call for greater community participation, stricter standards, and stronger safeguards when awarding subsidies. Good Jobs First and a growing number of community-based organizations take the latter view. It's unlikely that the practice of handing out subsidies will be done away with anytime soon, but it is possible to reform the practices of how subsidies are awarded and what standards those projects are held to.

When considering whether a project is a good idea, it's important to consider opportunity costs – that is, what a community is giving up by directing public money toward private enterprise and on what that money could be used for instead.

Are development subsidies ever a good idea?

Some critics call for an outright end to the practice of subsidizing companies,

while others call for greater community participation, stricter standards, and stronger safeguards when awarding subsidies. Good Jobs First and a growing number of community-based organizations take the latter view. It's unlikely that the practice of handing out subsidies will be done away with anytime soon, but it is possible to reform the practices of how subsidies are awarded and what standards those projects are held to.

When considering whether a project is a good idea, it’s important to consider opportunity costs – that is, what a community is giving up by directing public money toward private enterprise and on what that money could be used for instead.

What is "accountability" and why does it matter?

Accountability means getting promises in writing and making developers and public officials stick to them. Accountable development, in contrast to the unaccountable development practices described above, is characterized by transparency of and public participation in the processes of crafting, monitoring, and enforcing development agreements. When taxpayer money is used for something

Accountability means getting promises in writing and making developers and public officials stick to them. Accountable development, in contrast to the unaccountable development practices described above, is characterized by transparency of and public participation in the processes of crafting, monitoring, and enforcing development agreements. When taxpayer money is used for something that is supposed to be for the public good, it is imperative that the process include local input.

Accountable economic development is the process of raising the standard of living for average working people and improving the quality of life for area residents. Accountable development gives local residents a say in how their communities are redeveloped. Rather than vague promises of "jobs, jobs, jobs," development agreements negotiated through accountable development practices yield concrete, enforceable benefits that address local needs. They create quality jobs that pay a family wage, provide health benefits, offer training and advancement opportunities, and are accessible to local job-seekers.

What can be done to make subsidized developments more accountable?

Communities across the country have won accountability reforms that give them a greater say in development decisions and target subsidies to companies that produce the greatest benefits for local residents.
Community, labor, religious and environmental groups have organized coalitions to stop or amend bad company-specific deals and push for legislative reforms that, when passed at the state or local level, apply to all subsidies granted by that jurisdiction.

Reforms are needed in all phases of the economic development process, from planning how to target subsidies, to the application and award process, to setting and monitoring the standards that subsidized companies must meet.
Specific reforms include:
Disclosure laws - require states to compile and report information on subsidized companies that can be easily accessed by the public. Those include which companies are applying for subsidies, the amount and type of subsidies companies have received, and whether companies are in compliance with their obligations under the subsidy agreement.

Prohibit Non-Disclosure Agreements - states and cities should ban officials representing the public - be they elected leaders or heads of economic development departments - from signing NDAs with corporations.

Clawback (or recapture) provisions - stipulate that if a company does not comply with the terms of its agreement (for instance, creating the promised number of jobs or paying certain wages), it must refund all or a portion of the subsidy it received. These provisions should be made public, and the terms should not change without public hearings and related disclosures.

Job quality standards - require subsidized companies to pay above market-rate wages, provide health benefits, and offer other benefits such as sick and parental leave or retirement packages.

Protecting education from tax giveaways - shield school funding by barring cities and states from abating the school portion of property taxes or by giving school boards veto power over subsidies.

Increasing accountability in the subsidy approval process - through mandatory public hearings and requiring votes on subsidies by elected officials.

Keeping state tax policy out of the subsidy debate - ensure that states maintain or adopt corporate income tax formulas that require companies to pay their fair share.

Negotiating community benefits agreements - contracts between developers and community coalitions that lay out a set of tangible benefits a development will create to meet the needs of local residents.

Program evaluations – a company should annually submit a report detailing capital investments, jobs created wage data that lists individual compensation totals and other economic benefits.

Caps and sunsets – put limits on the amount of subsidies per job and require that programs sunset after a number of years.

For more information on these accountable development reforms, see Key Reforms section.
For information on how to research development deals, see our Researcher's Guide.

Good Jobs First
Washington, DC
www.goodjobsfirst.org