Incentives in Context

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Common Perception About Incentives

Financial Incentives

Everything Else
Effectiveness of Incentives
“A lot of companies are not heavily focused on incentives. They’re heavily focused on labor, partnerships, and relationships they might have in the community at large. Incentives are something they think about, but they don’t obsess about it.”

Scholarly Research on Incentives

Incentives have little or no measurable impact on employment or macroeconomic growth.

- Results hold for statutory and discretionary incentives
Business Fundamentals Trump Incentives

• Common Essential Needs:
  ◦ Workforce
  ◦ Access to Inputs
  ◦ Access to Customers
  ◦ Transportation and Logistics
  ◦ Research and Development Capacity
  ◦ Quality of Life

“You need to find a location that works without incentives, because at some point of time in the future the incentives are going to go away.”

# Importance of Incentives Relative to Other Factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percent Giving Highest Score for Importance</th>
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</thead>
<tbody>
<tr>
<td>Availability of Skilled Labor</td>
<td>57%</td>
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<tr>
<td>State Individual Income Tax Rate</td>
<td>44%</td>
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<tr>
<td>State Corporate Tax Rate</td>
<td>42%</td>
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<tr>
<td>Local Property Taxes</td>
<td>42%</td>
</tr>
<tr>
<td>Availability of Community Colleges</td>
<td>38%</td>
</tr>
<tr>
<td>State Regulatory Environment</td>
<td>37%</td>
</tr>
<tr>
<td>Availability of 4-Year Colleges/Universities</td>
<td>34%</td>
</tr>
<tr>
<td>Highway Infrastructure</td>
<td>32%</td>
</tr>
<tr>
<td>Information Technology Infrastructure</td>
<td>32%</td>
</tr>
<tr>
<td>Environmental Regulations</td>
<td>28%</td>
</tr>
<tr>
<td><strong>Local Economic Development Tax Incentives</strong></td>
<td><strong>27%</strong></td>
</tr>
<tr>
<td>Land Prices</td>
<td>27%</td>
</tr>
<tr>
<td><strong>State Economic Development Tax Incentives</strong></td>
<td><strong>26%</strong></td>
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</tbody>
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Role of Incentives in the Site Selection Process
Site Selection Process

1. Define Requirements
2. Data Analysis & Identify Finalists
3. Conduct Site Visits
4. Negotiate Incentives & Finalize Deal
Process Increasingly Data-Driven

- Define Requirements
- Data Analysis & Identify Finalists
- Conduct Site Visits
- Negotiate Incentives & Finalize Deal

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What You See

- Conduct Site Visits
- Pick Finalist(s)
- Negotiate Incentives & Finalize Deal
Stages Where Incentives Can Be Most Influential

1. Define Requirements
2. Data Analysis & Identify Finalists
3. Conduct Site Visits
4. Negotiate Incentives & Finalize Deal
Financial Incentives

Everything Else
Getting the Most Out of Incentives
Discretion and Continual Reform

Advantages of Discretionary Programs vs. Statutory Tax Incentives

- Budget certainty
- Assess “But For” question
- Consideration of opportunity costs
  - Through budget process and program administration
- Analyze return on investment (ROI)
  - Economic and fiscal
- Performance agreements
  - Clawbacks

Continual Reform

- Regular reports
  - Develop consistent metrics for ROI
- Keep pace with evolving landscape
Think Broadly About Incentives

<table>
<thead>
<tr>
<th>Workforce</th>
<th>Infrastructure</th>
<th>Business Environment</th>
<th>Business Finance</th>
<th>Quality of Life</th>
<th>Business Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12</td>
<td>Transportation</td>
<td>Permitting</td>
<td>Revolving Loans</td>
<td>Cost of Living</td>
<td>Supply Chains</td>
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<tr>
<td>Tailored Training</td>
<td>Digital Connectivity</td>
<td>Tax Burden</td>
<td>Loan Risk Sharing</td>
<td>Cultural &amp; Recreational Amenities</td>
<td>Equity Capital</td>
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<tr>
<td>School-Business Connections</td>
<td>R&amp;D</td>
<td>Entrepreneurship Supports</td>
<td>Micro-Finance</td>
<td>Mass Transit</td>
<td>Business Ambassadors</td>
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<td>Energy</td>
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