

Evaluating and Improving Tax Incentives

Lessons Learned

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ECONOMIC PERSPECTIVES ON STATE AND LOCAL TAXES

MAY 2017 – CAMBRIDGE, MA
LINCOLN INSTITUTE OF LAND POLICY





About us

Business Development Advisors is an economic development consulting firm



Smart Incentives helps communities make sound decisions throughout the incentives process



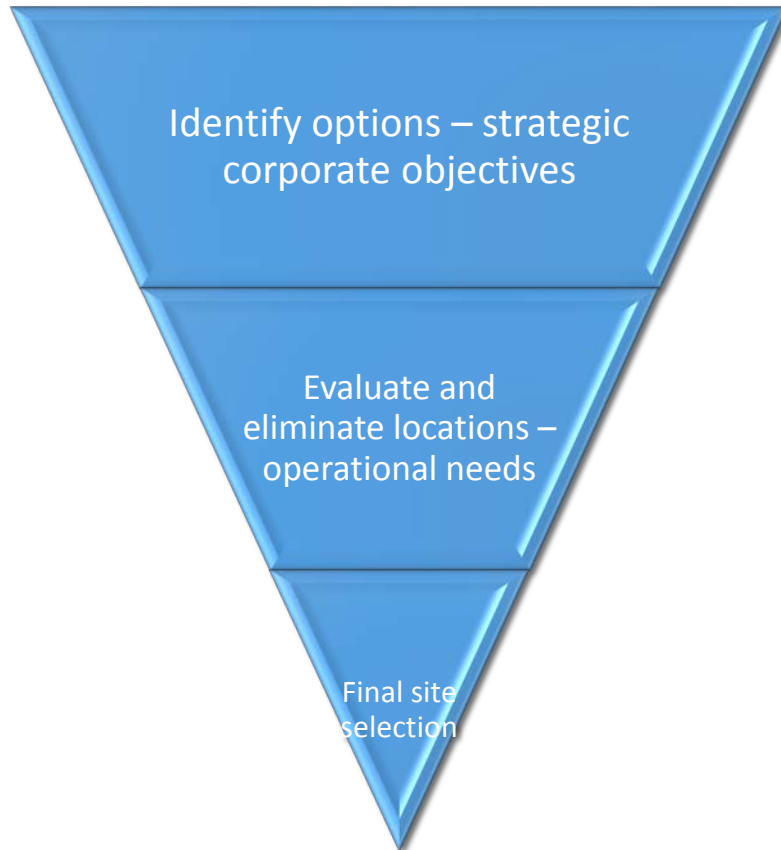
Economic development and incentives

Why do we use incentives? To achieve our community's economic development goals

- Jobs
- Business Development
- Investment
- Downtown revitalization
- Brownfield redevelopment
- Quality of life and quality of place
- Strengthen tax base

Incentives are **not just about winning a deal**. Smart incentive use is always connected to a larger **economic development strategy**.

Site selection and incentives



First tier:

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

Second tier:

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

Incentives are used to **maximize opportunity** and **minimize risk**.

Source: Smart Incentives, JLL

Companies are seeking well-designed incentive programs that work for both the business and the community to drive long-term, mutually beneficial economic development projects

Source: JLL, 2015

State incentive offerings

Non-tax Incentives

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

56%

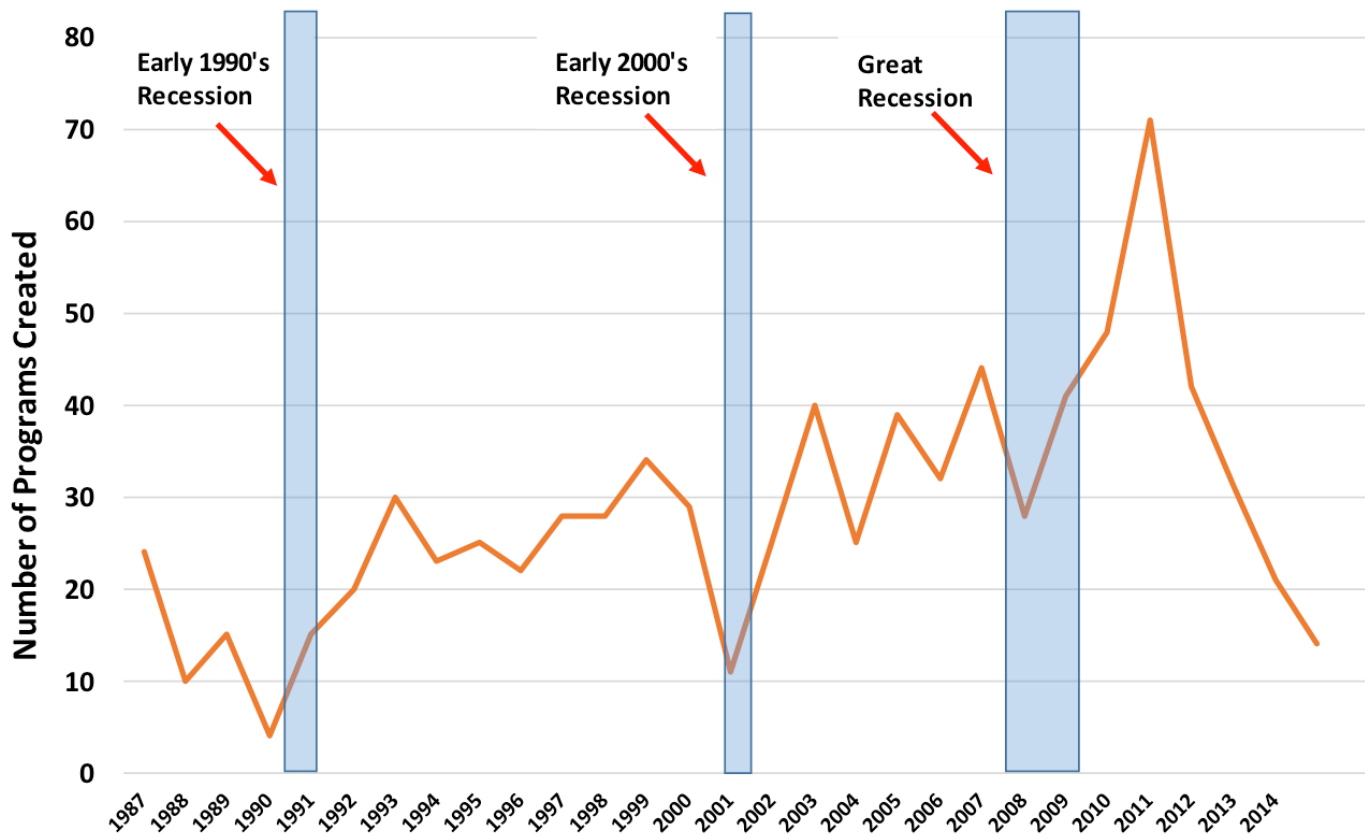
Tax Incentives

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

44%

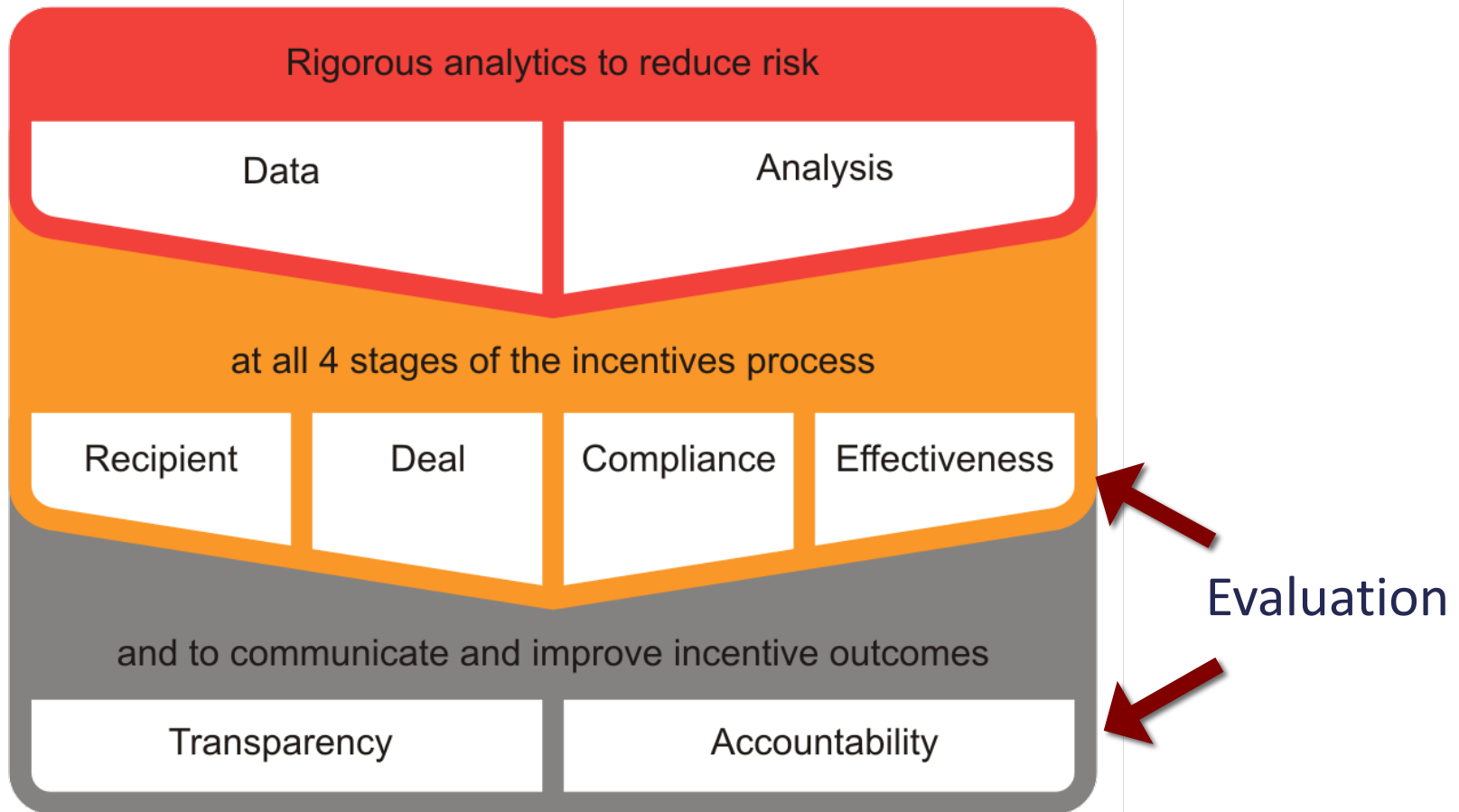
Source: C2ER

State programs created



Source: C2ER

A framework for effective and responsible incentive use



Evaluation lessons learned – the challenges

Evaluations are risky for economic developers

- Factors outside their control determine outcomes
- One bad project can drive negative perceptions
- Results often oversimplified - headlines and tweets can't tell the story

Evaluations are difficult to do well . . .

- Data
- Resources
- Expertise

. . . And still leave many questions unanswered

- Goals evolve – expected outcomes change
- Nuanced findings are unsatisfying

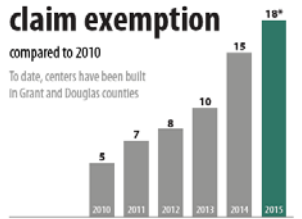
Communicating findings is not easy . . .

JLARC Staff 2016 Tax Preference Performance Evaluation Sales & Use Tax Preference

Data Center Equipment		JULY 2016
Stated Objectives	Results	
Improve industry competitiveness through increased investment, resulting in increased property taxes paid on data centers in rural counties	Achieved	
Create family-wage jobs	Too soon to tell	

More businesses invest in data centers and claim exemption

compared to 2010
To date, centers have been built in Grant and Douglas counties



* Potential, estimated by JLARC staff based on exemption certificates issued. Source: JLARC Staff Analysis of DOR - Tax Incentive Public Disclosure Reports.

Beneficiary savings exceed property tax paid



Businesses do not pay sales taxes on certain equipment purchases for rural data centers, regardless of where the purchase is made. Source: JLARC Staff Analysis of DOR tax exemption study, property tax data.

Businesses pay property taxes on data centers in rural counties.

Too soon to know if job target will be met

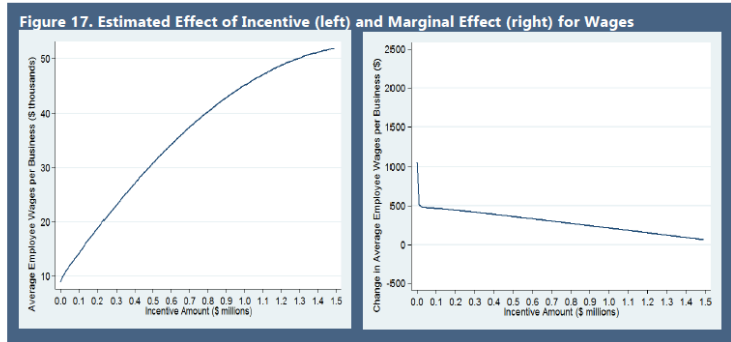
Actual job data is unavailable until late 2016.

Businesses that do not meet job targets must pay back previous years' tax savings

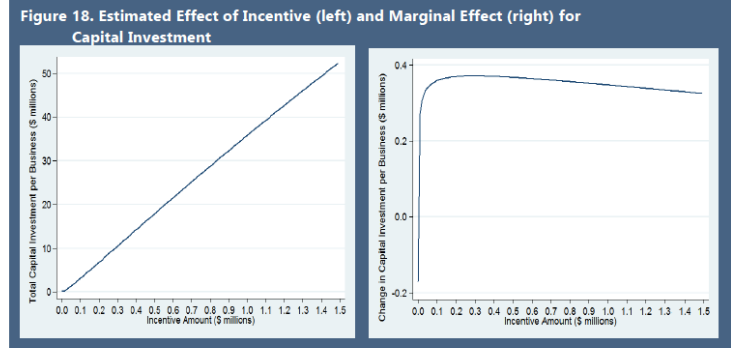


Source: Job target based on exemption certificates. Tax savings estimated from JLARC Analysis of 2016 DOR Tax Exemption Study.

RECOMMENDATION: The Legislature should continue the data center sales and use tax exemption because it is achieving the stated public policy objective. The rural county tax base has increased as a result of the construction of data centers eligible for the tax preference.



Capital Investment. Another way to measure economic development is capital investment. Businesses that claim a tax incentive must show reinvestment of their tax savings back into their business. As a result, a larger capital investment to tax savings ratio would imply greater economic development than a smaller ratio. Of course, since the level of capital investment provided by businesses on EZB-R filings is self-reported, it may



Evaluation lessons learned – the benefits

Improving accountability

- What are we getting out of our incentives spending?

Improving understanding

- Communicating effective and responsible incentive use
- Insight on the role incentives play in economic development

Making evaluations useful to improve economic development outcomes:

- Requires a sustained commitment to be meaningful
- Emphasizes the critical role of communication
- Focuses on improving policy – not disparaging past decisions

3 steps state legislatures can take to create smart incentives

1. Set clear goals for each incentive program
2. Request and fund regular program performance evaluation
3. Work with the executive and economic development office to improve program performance
 - On the same team – creating economic opportunities in your state
 - How can incentives support these efforts?



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