Incentives for the Twenty-First Century
Incentives for the Twenty-First Century

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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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## Contents

**Introduction** ........................................................................................................................................... 1

What is an Incentive? ................................................................................................................................. 1

The State of Incentives Today .................................................................................................................. 2

Continuing Use of Incentives .................................................................................................................. 3

**Past EDRP Research** .......................................................................................................................... 4

Evaluating the Return on Incentives ......................................................................................................... 4

Increasing the Return on Incentives .......................................................................................................... 5

Alternative Incentives: *More than Money* .............................................................................................. 7

**Incentives for the Twenty-First Century** .............................................................................................. 7

**Building Human Capital** ..................................................................................................................... 9

Incentives for Human Capital Attraction and Development .................................................................. 10

**Leveraging Local Talent** ..................................................................................................................... 13

Incentives for Local Hiring ....................................................................................................................... 13

**Promoting Entrepreneurship** ........................................................................................................... 15

Entrepreneurship Incentives .................................................................................................................... 15

**Accelerating Gazelles** ....................................................................................................................... 17

Incentives for Gazelles ............................................................................................................................ 17

**Promoting the Benefits of Exporting** ................................................................................................. 20

Incentives for Exporting ........................................................................................................................... 20

**Retaining Business** ............................................................................................................................. 23

Incentives for Retention ............................................................................................................................ 23

**Assisting Businesses to Improve Energy Efficiency** .......................................................................... 24

Incentives for Energy Efficiency ............................................................................................................... 24

**Placemaking for Improved Community Branding** ............................................................................ 27

**Rehabilitating Older Buildings** ......................................................................................................... 29

Incentives for Rehabilitating Older Buildings ....................................................................................... 29

**Growing Smart with Location-Efficient Incentives** ......................................................................... 31

Incentives for Smart Growth .................................................................................................................... 31

**Brownfield Remediation** .................................................................................................................... 36

Incentives for Brownfield Remediation .................................................................................................. 36

New Approaches to Brownfields ............................................................................................................ 38

**Conclusion: The Future of Incentives** ................................................................................................. 41
Introduction

In recent years, the International Economic Development Council’s membership has expressed interest in improving its understanding of how to use economic development incentives more efficiently, responsibly, and cost-effectively.¹ Therefore, IEDC’s Economic Development Research Partners (EDRP), which serves as an in-house think tank, has issued two reports on the topic of incentives in the last year.

The following paper, which is titled Incentives for the Twenty-First Century, is the final report in the EDRP’s trilogy on this topic. The report offers recent examples of effective and innovative incentives design that yield high community returns.

What is an Incentive?

An incentive is a reward intended to induce, incite, or spur action. Economic developers aim to improve the economic and social well-being of their communities by increasing private-sector investment and employment. Accordingly, economic development incentives are inducements—often in the form of financing, but sometimes in the form of services—to persuade companies to build new structures, purchase equipment, design new products, enter new markets, and above all, create new jobs in places where they would not have otherwise. Financial incentives sometimes take the form of grants or loans but are often tax-based abatements, credits, or refunds. Incentives can also be used as preventative inducements to preserve jobs and investment that would have otherwise left a community.² In economic development, incentives tend to be awarded to specific businesses, in exchange for certain business actions, rather than being available to all taxpayers.³

Many economic development organizations (EDOs) focus their incentives on strategic industries. For instance, the Florida Department of Economic Opportunity may award corporate income tax credits to attract capital-intensive industries like clean energy, biomedical technology, financial services, information technology, and transportation equipment.⁴ Other EDOs focus on attracting large facilities by setting minimum expenditures for incentives, as a single major firm can serve as a catalyst for considerable further development.⁵

Incentives for the Twenty-First Century

Incentives can be used attract investment to areas with weak demand. Incentives can also be used to overcome obvious market failures, such as when they are used to tackle brownfields projects that would otherwise go untouched by developers due to high project risk, or when they are used to build infrastructure that will benefit the entire community. Involuntary unemployment is another example of a common market failure that can be addressed through the use of incentives. In such cases, incentives may be predicated upon the recipient filling a certain number of the project’s new jobs with local unemployed citizens. However, it is critical for economic developers to show why an incentive is needed before offering it to a business.

The State of Incentives Today

Incentives are a common tool used in economic development. About 95 percent of localities and states in the U.S. offer at least one incentive for economic development. More is spent on incentives than on all other economic development programs combined, and U.S. localities and states spend somewhere between $30 billion and $80 billion annually on these programs. Some states spend as much as 50 percent of their budgets on incentives.

Despite the prevalence of incentives, critics of the practice worry that incentives are mainly used to move jobs from one location to another. Seventy-eight percent of the local economic development officials who responded to a recent survey said that they were competing against their immediate neighbors for investment projects. While local competition for investment may redistribute jobs towards sectors with high unemployment, thereby putting unused labor into productive use, local competition for investment can also create a “race to the bottom” with escalating bids for the same project. Offering incentives whose cost exceeds their benefit is “an undesirable result and definitely not in the public’s best interest.” The overuse of incentives can reduce a tax base, and ultimately, a place’s ability to pay for the critical services—education, safety, and infrastructure—that make it...

13 Warner and Zheng, “Recessionary Times...”
15 MEDA, The Value and Public Benefits...
attractive for investment in the first place.\textsuperscript{16} This happens particularly when there is a discrepancy between a project’s fiscal benefits for a local government and the broader region.\textsuperscript{17} Regional cooperation agreements, such as those used in the Dayton, Cleveland, and Denver areas, have reduced intra-regional competition.\textsuperscript{18}

Other observers are concerned that incentive awards are not persuading companies to do anything that they would not have done otherwise.\textsuperscript{19} Most executives of incentive-receiving companies are not even aware that their company has received an award, according to a 2015 survey, making it unlikely that incentives were a key influence in their investment location decisions.\textsuperscript{20} At the extreme end, an academic study recently published in the peer-reviewed journal \textit{Economic Development Quarterly} found that as few as one in 30 incentive awards changed a company’s behavior.\textsuperscript{21}

But it is not easy to determine which incentives are successful in shaping corporate behavior, because companies try to keep their location decisions protected from competitors. Unless economic developers can determine which individual incentive awards have influenced behavior, the costs of giving "incentives" to companies that would have invested anyway must simply be capitalized into the overall costs of operating an incentive program.\textsuperscript{22} For example, when the state of Maine evaluated its incentives programs, it used the assumption that just a quarter of its incentives had induced investment that would not have otherwise occurred to calculate returns.\textsuperscript{23}

\textbf{Continuing Use of Incentives}

A number of economists, politicians, and journalists have suggested that the use of incentives for economic development should be limited. Some argue the return on investment (ROI) from spending on education and infrastructure is greater than from spending on incentives, and so public spending would be more productively utilized on those programs.\textsuperscript{24} Others advocate a “business climate approach,” arguing that low tax rates and streamlined regulations for all businesses are the most effective

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\textsuperscript{17} Chicago Metropolitan Agency for Planning, \textit{Examination of Local Economic Development Incentives in Northeastern Illinois}, (Chicago: CMAP), 2013.

\textsuperscript{18} Hurwitz, \textit{Seeding Growth}.

\textsuperscript{19} Morgan, "For Better or For Worse."

\textsuperscript{20} Jolley et al., "Executive Perceptions..."


\textsuperscript{22} Morgan, "For Better or For Worse."

\textsuperscript{23} Hurwitz, \textit{Seeding Growth}.

mechanisms for business creation. In a recent survey of executives from companies that had received incentives, 80 percent stated they would prefer broadly available low taxes to targeted incentives.25

However, there is considerable political pressure to continue using incentives, especially in the face of significant inter- and intra-state competition for investment.26 Dale Ketcham, Chief of Strategic Alliance at Space Florida, says, “Unilateral disarmament in the face of economic competition is not a strategy for success.”27 With the realization that the use of incentives is unlikely to disappear overnight, the International Economic Development Council’s members have expressed interest in improving their understanding of how to use incentives efficiently, responsibly, and cost-effectively.28 Therefore, IEDC’s Economic Development Research Partners (EDRP) program has responded with three papers on the topic of incentives. These papers advocate for economic developers to:

- Consider the use of non-financial inducements to attract business.
- Evaluate the ROI of financial incentives and design financial incentives to maximize their effectiveness.
- Innovative effective new incentives to address today’s most pressing economic development challenges.

Past EDRP Research

Evaluating the Return on Incentives

Given the considerable debate regarding public investment and tax policies, it is clear that economic developers need to demonstrate that incentives are effective tools. As one commentator points out, the question then becomes: "effective at what?"29 EDRP’s 2014 report, Seeding Growth: Maximizing the Return on Incentives, offers one answer. Incentives need to be treated as community investments, and the measure of their effectiveness then becomes return on investment (ROI).

The ROI of incentives is frequently measured via the number of direct jobs created, but ROI can also be measured through the change in corporate profitability, capital expenditure (plant and equipment), tax revenues, property values, and other outcomes. Economic developers should set a target level of return, calculate projected and actual returns, and limit investment to the best-performing projects.30

“Unilateral disarmament in the face of economic competition is not a strategy for success.”

-Dale Ketcham, Space Florida
Policymakers also need to evaluate their entire incentives portfolios at regular intervals.\textsuperscript{31} Seeding Growth explains how to use evaluative tools, including cost-benefit analysis and economic impact analysis, to collect data and measure return.

States and localities are now evaluating ROI on incentives as standard practice. Since 2012, ten states have reviewed their economic development policies in a comprehensive way. In the first half of 2015, at least three states—Colorado, New Jersey, and Maine—are considering undertaking such evaluations.\textsuperscript{32}

Comprehensive ROI analyses can help demonstrate the effectiveness of incentives. For example, by using ROI analysis, the Virginia Economic Development Partnership has avoided making incentive awards where it established that the return would not be adequate. Meanwhile, the state’s Governor's Opportunity Fund, which is a deal-closing fund, has been projected to generate an 11-to-1 return on dollars spent.\textsuperscript{33} ROI analysis may also lead to the rethinking of incentive policy. For example, based on an evaluation that revealed that New Jersey's business and film tax credits were not producing high returns, Governor Chris Christie proposed winding down the programs and reinvesting the savings in the state’s Main Streets downtown revitalization program.\textsuperscript{34}

**Increasing the Return on Incentives**

In other cases, economic developers have responded to ROI evaluations with adjustments to their incentive program design. Certain design features, such as targeting priority clusters, can make incentives significantly more likely to create new jobs and investment.

In general, incentives work best when they are:
- Directed at a particular community need;
- Designed to fill a business gap;
- Paired with appropriated regulations;
- Clearly communicated and actively marketed;

\textsuperscript{31} Hurwitz, *Seeding Growth*.
\textsuperscript{34} MassINC, "New Jersey Offers New Model for Economic Development Reform," April 6, 2010.
➢ Simple to administer; and
➢ Have community support and participation.35

To achieve these goals, Seeding Growth advocates several important design features of incentives:

➢ Developing incentives based on strategic economic development goals;
➢ Targeting incentives towards high-value economic activity;
➢ Exploring alternative ways of structuring incentives to reduce downside risk;36
➢ Including enforceable conditions on any investments; and
➢ Collaborating with regional partners on economic development.37

Incentives should be designed around strategic priorities and clusters, as they are identified in a strategic plan. Only about half of incentives programs are currently focused on target industries.38 Yet, those programs that focus on clusters are extremely successful; for example, the State of Florida’s incentives policy is driven by defined capital-intensive, export-focused clusters such as tourism. Florida’s Office of Economic and Demographic Research has consistently found that the state’s Qualified Targeted Industry incentive, which targets priority cluster development, has high returns that were 6.4 times the state’s investment in 2014.39

Seeding Growth also recommends that EDOs increase their returns by creating enforceable incentive agreements with the companies that apply for incentives. These agreements can stipulate a variety of requirements, such as the number of jobs, the amount of time a company will spend at a site, and the amount of public investment the company will receive. Some jurisdictions also use these agreements to ensure that companies would have located elsewhere but for the incentive. Some agreements require signed guarantees from corporate executives, while others require documentary proof that a location outside the jurisdiction would be more profitable without incentives.40

In addition, Seeding Growth addresses clawback provisions for investment recapture. Some EDOs are now filing Uniform Commercial Code financing statements for incentives to secure the loan or grant with company collateral. When a clawback is needed, UCC filings can help EDOs recoup investment. An alternative solution to strengthening clawbacks is to design incentives to reward corporate performance. Some EDOs issue credits, loans, or grants only after companies demonstrate that they

36 Hurwitz, *Seeding Growth*.
37 Morgan, "For Better or For Worse."
39 Office of Economic & Demographic Research [Florida], *Return on Investment for Select Economic Development Programs*, (Tallahassee, FL: EDR), 2015.
40 Bartik, "Solving the Problems..."
have made the capital investments and created the jobs that they have agreed to, thereby minimizing risks and increasing returns.\textsuperscript{41}

**Alternative Incentives: More than Money**

EDRP’s 2014 report, *More than Money: Alternative Investments that Benefit Companies and Communities*, explores the use of non-financial incentives. While non-financial incentives are often considered to be economic development standard practice, they can in fact be considered inducements if they are not offered by every jurisdiction (and thus give those that offer it a business advantage), have criteria for eligibility (are not universally available), and have an influence on business location and investment decisions. For example, in some communities, companies can apply to EDOs to receive technical assistance to achieve certifications in lean manufacturing or exporting. These programs can decrease company costs and increase profitability, thereby serving as effective non-financial incentives.

*More than Money* finds that non-financial incentives can be at least as effective as financial incentives. According to the report, the most commonly used non-financial incentives are:

- Customized workforce development;
- Relaxed zoning regulations and fast-track permitting;
- Providing complimentary data and research;
- Promoting companies; and
- Improving infrastructure.\textsuperscript{42}

**Incentives for the Twenty-First Century**

In order to win community support for the continued use of incentives, economic developers need to demonstrate that they are supporting community wealth creation.\textsuperscript{43} Economic developers in the 21\textsuperscript{st} century are innovating new approaches, with a new understanding of what incentives are and what they can do. Today’s innovative approaches to incentives include using innovative financial structures,
increasing the coordination of incentives policy with proven economic development strategies, and using incentives to advance community development goals.

Research has demonstrated that strategic planning, business retention and expansion programs, entrepreneurship promotion, and community development initiatives are some of the most effective economic development practices, so it is little surprise that incentives work best when they are linked to these practices. While so-called "first-wave" economic development strategies tend to be based on the use of incentives, "second-wave" economic development strategies place greater emphasis on efforts such as business visits, technical assistance, and entrepreneurial development. Incentives should be awarded in conjunction with proven economic development approaches, such as:

- Assisting companies to export;
- Focusing on retaining companies that are considering leaving the community;
- Building high-value industry clusters.

Incentives can also be used to advance community development and social development goals at the same time as economic development. Business incentives can be used to assist with:

- Developing vacant sites;
- Employing the chronically underemployed;
- Remediating contaminated lands;
- Restoring culturally significant buildings;
- Revitalizing derelict neighborhoods or commercial corridors; and
- Contributing to smart growth.

What is common to the incentives presented in this paper is that they reduce business costs and have the potential to significantly increase jobs, investment, tax revenues, and consumer spending. Although not all of the incentives here are entirely new, they present effective ways of incentivizing business activity. In every case, an effort has been made to identify programs that present recent practice that has been widely recognized as effective and innovative.

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44 Warner and Zheng, “Recessionary Times…”
45 Zheng and Warner, “Accountability and Policy Learning…”
Building Human Capital

Workforce training, experience, and skills—also known as human capital—is an essential driver of productivity increases and a fundamental engine of economic growth. However, many of the most urgently needed skills are in short supply. Only 20 percent of workers currently have the skills that will be needed in the majority of jobs that will be created in the next 10 years. Thus, companies are already competing vigorously for talent, with executives reporting that finding high quality workers is one of their key challenges. The need for a deep pool of highly skilled employees at a competitive price point is, according to a recent survey of executives, the single most important factor in driving business location decisions. Furthermore, the educational attainment of a region’s workforce is the greatest predictor of its economic success, as education has been show to lead to wealth creation. For instance, increasing the four-year college graduation rate in metropolitan areas by one percent would increase national income by $124 billion a year.

Given the importance of human capital, many localities and states have made workforce attraction and development their top economic development priority. Additionally, because workers tend to be less mobile than financial capital, investments in human capital are most likely to stay within a region. Though companies prefer to locate where skilled labor is cheap and plentiful, this is not always possible. Therefore, a community that rates highly in infrastructure and tax climate, but that does not offer the best workforce, may be able to tip the balance in their community’s favor by providing customized training programs, complimentary screening and hiring assistance, and grants and credit to cover tuition and employee wages during training. Recent studies have found that training incentives have a stronger positive effect on economic activity than do tax incentives—as much as 10 times greater. Another study found that workforce development incentives cost about $9,000 per job—significantly less than many other incentive programs. Helping to upgrade worker skills is a smart strategy for increasing business, employee, and community livelihoods.

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Incentives for Human Capital Attraction and Development

There are a number of ways that EDOs can assist companies with their search for talented employees. One of the simplest approaches is to market training programs that already exist. Studies show that most employers are unaware of the free and low-cost training programs available in their community. Some of the more hands-on incentives for human capital development, such as job-training grants and wage subsidies, are well established. Meanwhile, newer approaches to workforce development focus less on financing and more on providing direct services to companies.

- **Job training grants.** These grants reimburse companies for the costs of training and upgrading employee skills in-house or through approved training providers. For example, Washington State’s WorkStart program makes grants of $100,000 to $200,000 for on-the-job training in the state’s targeted industry sectors—agriculture, aerospace, advanced materials, life sciences, and marine technology.\(^{52}\)

- **Wage subsidies.** EDOs may also subsidize employee wages during training to offset business costs. For example, the KingsWorks program in Kings County, California provides up to 50 percent of an employee’s wages during an on-the-job training program.\(^{53}\)

- **Complimentary hiring assistance.** Many EDOs now provide companies with complimentary labor market analysis.\(^{54}\) Others provide complimentary recruiting, screening, and skills assessments of job candidates.

- **Customized training programs.** When EDOs join with local colleges and other trainers to provide customized training for employers, it can be one of the most powerful incentives for business retention and attraction. Because customized training can be offered up-front, it can have a strong effect on business location decisions.\(^{55}\) Louisiana’s FastStart program is a highly regarded customized training program.

**FastStart**

*Louisiana Economic Development*

Launched in 2008, Louisiana Economic Development’s (LED) FastStart program is an award-winning non-financial workforce incentive program that is available to companies that commit to creating at least 15 manufacturing jobs or 50 jobs in the media, headquarters, research and development, or logistics fields in the state. Companies do not have to apply to enter the program. Instead, FastStart proactively

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54 Ghosh and Libby, *More than Money*.
55 Bartik, "Solving the Problems..."
provides eligible companies with a complimentary and comprehensive suite of recruiting, hiring, and training services.\(^5^6\)

LED begins assisting eligible companies by providing complimentary business analysis, needs assessments, and staffing plans. The organization then helps to recruit employees by running jobs fairs and conducting social media campaigns. Once job candidates have been identified, LED screens and interviews them on behalf of the organization. Finally, LED designs and implements training for the company. New hires, including managers, are trained in technical and soft skills necessary for their positions in classroom and immersive workplace settings. FastStart has developed a reputation for using high-tech training, such as 3D animated training videos.\(^5^7\)

To provide top-quality training for companies, FastStart employs administrative staff, business developers, and trainers with extensive industry experience in the program’s target industries. Executive Director Jeff Lynn explains, “The folks we’ve hired to work at FastStart have come from business and industry. They understand what an expanding company or a startup needs in the way of hiring and training.”\(^5^8\)

The entire process is customized for a recipient company. “I don’t think there is any program we received from LED FastStart that you would describe as ‘off-the-shelf,’” says Ray Peters, vice president for human resources and marketing at wood products manufacturer RoyOMartin. “Every time we went to them with a problem, we went through a problem-solving scenario with them and they, working with us, said, ‘These are some of the solutions we can offer.’”\(^5^9\)

LED continually monitors and evaluates the program, which has assisted nearly 150 businesses since its inception, in order to improve its efficacy. In the last six years, Louisiana has attracted $62 billion in investment, and while traditional incentives have played a role, FastStart has been described as “the silver bullet in Louisiana’s success in the site selection wars.”\(^6^0\)

- **Relocation incentives.** A new twist on workforce incentives is the relocation program. Instead of increasing the skills of current residents, relocation incentives focus on attracting skilled workers from elsewhere. Kansas’s Rural Opportunity Zones (ROZ) program illustrates the relocation incentive concept. Under the ROZ program, which was started in 2012, people who have lived and worked outside the state for more than five years and relocate to one of Kansas’s 77 rural counties are eligible for income tax waivers for up to five years and student loan repayments up

57 Ghosh and Libby, More than Money.
59 Richardson, “LED FastStart...”
60 Richardson, “LED FastStart...”
to 20 percent of their outstanding debts and $15,000 ($3,000 per year for up to five years). Counties provide half of the funds for the student loan repayments.\footnote{Kansas Department of Commerce, “Rural Opportunity Zones,” Retrieved April 29, 2015.}

Chris Harris of the Kansas Department of Commerce, which administers the program, says that ROZ “is designed to address population loss, [as] the population loss problem has spanned decades and generations and has come to define how we think about rural Kansas.” He continued, “We believe ROZ is [sic] very effective and a proven tool to address this issue.”\footnote{Kansas Department of Commerce, “Frequently Asked Questions – Rural Opportunity Zones (ROZ).” Retrieved April 29, 2015.} In its first 18 months alone, the program approved more than 500 applications for the student loan repayments.\footnote{Associated Press, “Kansas Senators Question Governor’s Rural Opportunity Plan,” Lawrence Journal-World, February 26, 2015.} In 2014, 330 people received income tax waivers. Harris estimated that the income tax waivers cost $800,000 but have an economic impact of $44 million in the state. Kansas legislators are now considering creating a similar “urban opportunity zone” incentive.\footnote{Brent D. Wistrom, “Kansas Expands Rural Opportunity Zones to 23 More Counties,” The Wichita Eagle, July 18, 2013.}

\begin{quote}
\textbf{CareerSource Florida's FloridaFlex Training Program}  
Tallahassee, FL

For more than two decades, FloridaFlex’s forerunner, the Quick Response Training grant program, had provided state grant funding for customized training to qualified new or expanding businesses in industries targeted for economic development in Florida. Administered by CareerSource Florida, the state’s workforce policy and investment board, Quick Response Training received $12 million annually in state funding. Businesses appreciated Quick Response Training’s flexibility, allowing funds to be spent in a variety of ways to develop skills critical to a company’s growth and had continually cited it as a consistently reliable option on the state’s roster of economic and workforce development tools.

In 2014, CareerSource Florida began a revision and update on the Quick Response Training program to ensure its continued relevance. With input from businesses, economic developers, higher education leaders, and a 2012 Florida competitiveness study, leadership identified the following priority areas for enhancements: greater flexibility; closer working relationships other supply-side organizations and business partners; and technology improvements aimed at speedy approvals, accessibility, and customer service excellence. CareerSource Florida also realized the need to better market Quick Response Training, recognizing that the incentive’s success was directly tied to its awareness by companies.

\end{quote}

\footnote{Rob Roberts, "Brownback Unveils 'Urban Opportunity Zone' Program in KCK," Kansas City Business Journal, October 23, 2014.}
The solution: FloridaFlex, the new name for Quick Response Training and the complete set of training resources offered by CareerSource Florida. The new name speaks to the program’s enhanced flexibility, increased market relevance, and ability to meet businesses on their terms. With a distinctive name and logo and a comprehensive new marketing strategy, including web enhancements and an array of outreach tools and opportunities, CareerSource Florida is spreading awareness and recognition of its training resources.

FloridaFlex, and its predecessor, is credited with helping Florida businesses train more than 130,700 new and existing employees since 1993, with more than 37,000 currently in the training process.

Leveraging Local Talent

When relocating companies attract many new residents, jurisdictions can incur high costs to provide additional services. This underscores the need to encourage companies to hire locally. Hiring locals ensures that earnings will be spent in the community and that a new corporate facility will contribute to unemployment reduction.

Incentives for Local Hiring

Many incentives programs work to ensure that locals are hired into at least some of the jobs at an incentivized facility. In fact, as discussed in the Seeding Growth report, some communities formalize these requirements into the agreements they sign with incentive-receiving companies. Such requirements increase the social benefits of incentives by focusing on whom the business hires.

- Local hiring programs. EDOs have connected incentives awards with mandatory and voluntary local hiring programs that help to ensure that jobs that require few formal credentials are filled with local residents. In San Francisco, any company receiving a municipal loan or grant in excess of $50,000 must use the city’s First Source Hiring Program. First Source connects dislocated workers and economically disadvantaged workers with entry-level jobs. EDOs can also match companies receiving incentives with local employment agencies on a voluntary basis, as in Chatham, North Carolina.

- Community benefits agreements. Community benefits agreements are used to connect local citizens to high-quality jobs in incentivized projects. A community benefits agreement may obligate a project developer to pay a wage threshold, participate in local hiring programs, or build affordable housing. These agreements are most often used in conjunction with large real estate developments that are receiving significant public contributions. Other programs

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66 Dydak and Hunt, Leveraging...
67 Bartik, "Solving the Problems...
69 Dydak and Hunt, Leveraging...
require companies that receive an incentive to commit to community engagement and philanthropy. The requirements of San Francisco’s Payroll Expense Tax Exclusion illustrate this type of agreement.

**Central Market and Tenderloin Area Payroll Expense Tax Exclusion**
San Francisco, California

In 2011, San Francisco’s Office of Economic and Workforce Development (OEWD) identified the Central Market and Tenderloin, two depressed neighborhoods south of San Francisco’s Central Business District, as prime targets for redevelopment. San Francisco, which utilizes a municipal payroll tax, had a unique lever for using business investment to revitalize the neighborhoods.

OEWD offered to exempt companies that moved to the area from payroll taxes for up to six years. The incentive that was expected to be particularly effective at attracting the wage-intensive technology businesses that OEWD was targeting—especially given that other locations in nearby Silicon Valley do not have payroll taxes. In 2013, OEWD gave payroll exemptions worth a total of $4 million to 14 companies, including well-known technology companies such as Zoosk, Twitter, and Spotify. It is estimated that the incentive could save Twitter up to $56 million in payroll taxes over the lifetime of the program.\(^{71}\)

As neighborhood revitalization is a primary goal of the program, the incentive stipulates that companies with a payroll of more than $1 million must negotiate a Community Benefits Agreement with local residents.\(^{72}\) These Agreements oblige companies taking part in the payroll tax exemption to support local workforce training and community development programs with money and in-kind gifts of products and human resources. OEWD reviews incentives recipients’ compliance with the CBA annually, and continued payroll tax abatement is contingent on continued compliance.

Incentive recipients have so far donated more than $6 million to neighborhood causes.\(^{73}\) Under Twitter’s agreement, staff members tutor at the Tenderloin Tech Lab, which builds vocational skills for local residents. In addition, the $3 million and 4,000-square-foot NeighborNest, which is a technology-based training center that opened in 2015, is heavily supported by Twitter.\(^{74}\) Yammer, another tech company in the area, has made a $500,000 in-kind software donation to Hire Up, an organization that prepares homeless and at-risk youth in the area for employment.\(^{75}\) The incentive is credited with inspiring local

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71 Ari Levy, “Tech’s Quest to Revive San Francisco’s Underbelly”, CNBC, Tuesday, April 28, 2015.
74 Levy, “Tech’s Quest...”
75 ICIC, “San Francisco Engages Tech Companies...”.
companies to become interested in increasing their volunteering and philanthropy in the neighborhood beyond the requirements of the incentive.  

The Payroll Tax Exclusion incentive has contributed to a revitalization of the neighborhood that has brought 12,000 new employees, 5,600 housing units, and many new retail businesses.

Promoting Entrepreneurship

Young, entrepreneurial firms create about two-thirds of new jobs. Entrepreneurs also contribute to economic diversity and productivity in a community. While many communities promote entrepreneurship as an element of their economic development strategies, some have gone further, directly incentivizing entrepreneurship.

Entrepreneurship Incentives

- **Loans.** Startup companies often have insufficient financing to enact their business plans. Traditional lenders are often unwilling to lend to entrepreneurs. EDOs can provide loans to these entrepreneurs to fill the financing gap. Another approach is to repackage existing loan products. For example, Pathway Lending in Nashville, TN, aggregates federal, state, local, and private funding to make startup loans. In its first 10 years, Pathway has made loans worth more than $30 million to 300 companies. Pathway loans have helped borrower companies create 1,000 new jobs.

- **Angel investing tax credits.** Angel investors are individual investors who make equity investments in early-stage companies. EDOs in Nebraska, Connecticut, Minnesota, and New Mexico have introduced tax credits to encourage angel investing, with some focusing solely on target industries. Angel investing tax credits can create a vibrant angel investment community, and in turn, provide an additional source of financing for entrepreneurs. Experts advise that angel investing tax credits are most effective when they are worth about 25 percent of total investment.

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76 Levy, “Tech’s Quest...”  
80 Garmise and Ghosh, Unlocking Entrepreneurship.  
investment and expire relatively quickly. In Georgia, a state angel investing tax credit has created 200 new jobs with a payroll of $10 million.

- **Equity investment.** EDOs can also create funds that take equity positions in entrepreneurial ventures. For example, the Seed Fund was launched in 2011 with $3 million from the Portland Development Commission, the City of Hillsboro, the state of Oregon’s Growth Account, and private investors.\(^{83}\) The fund makes $25,000 equity investments in promising ventures in the Portland area. Companies also receive mentorship and consulting. Similarly, Michigan’s Pre-Seed Capital Fund makes equity investments in early stage companies, as well as making microloans.\(^{84}\) To qualify for the fund’s equity stakes, companies must be beyond concept development and must have identified milestones for commercialization. Funds can be used to pay for consulting, regulatory review, manufacturing, and marketing plans.\(^{85}\)

- **Complimentary business services.** An alternative approach to assisting startup companies is to give entrepreneurs free or low-cost business services. These services can save entrepreneurs significant amounts of money. For example, the City of Hamilton, Ontario, gives entrepreneurs free meeting space and access to a group of volunteer lawyers, real estate agents, and accountants.\(^{86}\)

- **Mentorships and accelerator programs.** Another non-financial incentive is to give entrepreneurs access to highly experienced mentors, through an informal pitch night or a more formalized accelerator program. Experienced business professionals are often eager to serve as mentors for entrepreneurs. For new ventures, mentorship is not only a form of pro bono consulting worth thousands of dollars but is often an invaluable service meaning the difference between failure and success. Several nationally recognized mentorship programs, such as Boulder, Colorado-based TechStars and Boston, Massachusetts-based Mass Challenge, provide accelerator curricula that economic developers located elsewhere can borrow to start their own programs. Valley Venture Mentors in Springfield, Massachusetts, illustrates both successful pitch night and accelerator programs.

\(^{83}\) Anderson, *Accelerating Success*.
\(^{84}\) Garmise and Ghosh, *Unlocking Entrepreneurship*.
\(^{85}\) Anderson, *Accelerating Success*.
\(^{86}\) Ghosh and Libby, *More than Money*. 
Valley Venture Mentors
Springfield, Massachusetts

Valley Venture Mentors is a nonprofit sponsored by regional universities, private sector financiers, and two EDOs: the Economic Development Council of Western Massachusetts and DevelopSpringfield. Valley Venture aims to build an entrepreneurial ecosystem in the Springfield-Hartford area (known as the “Knowledge Corridor”) through mentorship and accelerator programs.

In the mentorship program, entrepreneurs, drawn from as far away as the New York City and Boston areas, come monthly to present their rudimentary business plans to some of the program’s 1,000 mentors, who provide feedback and suggestions. In the program’s first three years, 50 ventures have exited the program with well-developed market plans. Graduate companies represent diverse industries, including accounting, distilling, beauty, fashion, and solar energy.87

Valley Venture’s accelerator program began in 2015. The program is highly selective. From a pool of 120 applicants, 30 entrepreneurs were invited to locate in the accelerator’s co-working space and receive a rigorous training program. Invited applicants also receive equity-free grants of up to $50,000 and have the opportunity to compete for additional prizes.88

Accelerating Gazelles

Growth-oriented small businesses, sometimes called gazelles or second-stage companies, are relatively young and small—usually less than five years old, with fewer than 50 employees. Gazelles are often associated with “high-tech,” but they can be found in many industries, including services.89 Gazelles produce most of the new jobs in the economy. Yet young, small businesses suffer from many challenges compared with larger, more experienced firms, such as low investment in job training; poor information on management, technology, and exporting; and difficulty obtaining financing.91

Incentives for Gazelles

Economic developers have long recognized the importance of small business development by providing advisory services and loans. Yet many incentive programs still preclude small businesses from benefitting because of their high minimum job creation and investment thresholds.92 EDOs can adjust their incentive policies to specifically address the needs of small, growth-oriented businesses. Incentives targeted for small businesses are effective at increasing productivity and

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88 Valley Venture, “What.”
89 Anderson, Accelerating Success.
92 Morgan, “For Better or For Worse.”
consumer welfare. Additionally, incentives targeted towards small businesses may be more cost-efficient at creating jobs than incentives that are not awarded on the basis of firm size. At present, only 15 percent of incentives are targeted toward a specific business size.

- **Loans for small business.** Loans are a long-standing, effective ways that economic developers have incentivized growth-oriented businesses. Kentucky is a leader in connecting incentive policy more explicitly with small business development. For example, Kentucky provides loans of $15,000 to $100,000 to small firms in manufacturing, agribusiness, and technology—the state’s strategic clusters—that create more than one job. These loans have terms of up to 10 years and can be used for land and building acquisition, construction, equipment purchase, and working capital.

- **Incentives for small business only.** EDOs have also created tax credit and grant programs to which only small businesses can apply. Kentucky’s Small Business Tax Credit is available only to businesses with fewer than 50 employees that hire at least one employee and invest at least $5,000 in equipment or technology. Kentucky’s Small Business Innovation Research and Small Business Technology Transfer programs are intended to spur increased research and development of gazelles by matching federal grants for technical feasibility studies as well as full-scale technology development.

- **Leveraging impact investing.** Other EDOs have leveraged the private sector’s interest in “impact investing” to spur for-profit, community-oriented venture capital funds. The Colorado Impact Fund, for example, was started in response to Governor John Hickenlooper’s comment that the state’s investors should do more to help local entrepreneurs. In Wichita, Kansas, the Entrepreneur to Entrepreneur (E2E) program grew out of an initiative of the Wichita Metro Chamber of Commerce. E2E is a for-profit venture capital fund aimed at technology-oriented, second-stage companies that provide benefits for Wichita. For example, E2E is currently working with an out-of-town company, currently with three employees, that is looking to relocate to Wichita and grow to 30 - 35 employees within three years.

- **Increasing growth-company embeddedness.** The owners of growth-oriented companies often aim to sell their companies to larger firms, and purchasers often move gazelles’ operations closer to their headquarters. Economic developers can avert relocation after purchase by

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93 Bartik, “Eight Issues...”
94 Morgan, “For Better or For Worse.”
99 Dan Voorhis, "Wichita is Stepping Up its Tech Game," Wichita Eagle, February 27, 2015.
offering incentives that develop local rootedness for these growth firms. For example, Michigan’s $1 million Entrepreneur-in-Residence/CEO Placement program attracts experienced local entrepreneurs to advise venture capital (VC) firms on deal flow. These entrepreneurs become the new, permanent CEO of ventures in which the VC invests. When these ventures are purchased, the Michigander CEO usually provides reason for the gazelle’s operations to remain in state. The CEO Placement program has helped Michigan build an active VC and startup community around seasoned entrepreneurial talent.  

**Equity investments (venture capital).** The most important business need for most growth-oriented companies is financing. EDOs are increasingly investing directly in promising companies at the critical juncture between the startup and high growth phases. Public venture investments differ from private sector investments in that they prioritize job creation as much as return on investment. Public VC funds are also usually directed toward the high-value, export-oriented target industries identified in a strategic plan.  

For example, the Maryland Department of Business and Economic Development’s Enterprise Investment Fund makes equity investments of $150,000 to $500,000 into emerging technology companies in life sciences, medical devices, and information technology, with the stipulation that the company must stay in the state at least five years. EDOs can use a variety of mechanisms to create such funds. For example, Michigan has used tobacco settlement funds, tax voucher-backed funds from capital markets, and public pension funds to finance its Venture Michigan Fund and 21st Century Fund.  

It is often difficult to identify which companies deserve investment. Observers warn that EDOs should be cautious and patient to maximize the return from their VC portfolios. Public venture funds often select investments based on those made by private investors, who are usually

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100 McHugh, *Jobs in the Making*.

101 McHugh, *Jobs in the Making*.


103 McHugh, *Jobs in the Making*. 

*Texas’ TETF venture fund has increased VC in the state and helped to fund innovative, high-growth companies.*
better equipped to identify promising ventures.\textsuperscript{104} Maryland matches private sector investments directly, but Michigan’s equity funds are privately managed. Local EDOs may also piggyback off private and state investments. For example, Prince George’s County, Maryland, matches the state’s Enterprise Investment Funds, which can help to retain companies receiving VC in the county.\textsuperscript{105} The Texas Emerging Technology Fund is an excellent example of a successful state VC fund that matches private sector investments.

**Texas Emerging Technology Fund**

Texas

Historically, few Texas companies received venture capital investments. The Texas Emerging Technology Fund (TETF) was started to remedy this problem, as well as to commercialize research. TETF’s venture arm matches private VC investments in the state. So far, TETF has made $205 million in equity investments in 145 companies. Awardees have leveraged an additional $2.2 billion in private, follow-on capital.\textsuperscript{106}

In 2007, TETF invested $1.5 million in Bellicum Pharmaceuticals, a company devising T-cell therapies to market for lymphoma and leukemia treatment. The company has grown quickly since. Shortly after, Bellicum received $20 million in private, Series B funding. In 2014, Bellicum launched an initial public offering on the NASDAQ exchange worth $140 million—the first Houston biotech company to go public in nearly 15 years. The company today employs 40, with plans to add another 30 staff this year. To prepare for its expansion, the company purchased an entire floor of the Life Sciences Plaza building in the Houston Medical Center neighborhood.\textsuperscript{107}

**Promoting the Benefits of Exporting**

Companies that export their products and services abroad can enhance their resilience and innovation. Some other facts about exporting are listed below.

- Exports are growing about four times faster than the economy as a whole.
- Wages at firms that export are about 11 percent higher than at firms that do not export.
- Entire industries—such as aerospace—survived the 2008 recession because of demand from other countries.\textsuperscript{108}

\begin{itemize}
\item \textbf{U.S. exports are growing about four times faster than the U.S. economy.}
\end{itemize}

\textsuperscript{104} McHugh, *Jobs in the Making*.
\textsuperscript{105} Battelle, *Strategy for Prince George’s County*.
\textsuperscript{107} Angela Shah, "*Houston’s Bellicum Pharma Rides T-Cell Therapy Wave to $140M IPO*," *xconomy*, December 18, 2014.
Incentives for the Twenty-First Century

- Exporting is the only way to access the 95 percent of the world’s customers who live outside the United States.
- Exports are 13.5 percent of U.S. GDP.
- Exports support more than 11 million jobs in the United States.\(^{109}\)

Although some federal programs, such as the Export-Import Bank, have existed for many years, only 4 percent of U.S. companies export abroad. Recently, state and local EDOs have become more active in encouraging firms to export. EDOs can increase local exporting by analyzing their clusters and identifying potential target markets for exports. These activities should be incorporated into an export strategy, with well-developed metrics for performance.\(^ {110}\)

Columbus 2020, an 11-county EDO in central Ohio, provides a good illustration of EDOs’ newfound appreciation for exporting. In the 2000s, the Columbus metropolitan region trailed many peer metros in exporting.\(^ {111}\) In 2012, through the Global Cities Initiative, a partnership of the Brookings Institution and JP Morgan Chase, Columbus 2020 developed a regional export plan. Through the program, metropolitan leaders became more aware of the $11 billion in export sales and 69,000 export-supported jobs in Columbus and the metro’s export strengths in chemicals, transportation equipment, and machinery.\(^ {112}\) The EDO now views exporting as a vital component of its goal to create 150,000 jobs by 2020. Columbus 2020’s export strategy uses its existing business retention and expansion program to identify companies that are export ready.\(^ {113}\)

Incentives for Exporting

Economic developers can offer a number of incentives to companies that are considering exporting.

- **Connecting companies to federal and state resources.** The federal government offers financing and insurance programs for exporters through the Export-Import Bank, the Small Business

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\(^ {110}\) Katz and Istrate, *Boosting Exports*.

\(^ {111}\) Mark Williams, "Columbus 2020 Group Focusing on Foreign Investment, Exports to Drive Job Growth," *Columbus Dispatch*, January 30, 2015.


Administration, the United States Department of Agriculture, and the Overseas Private Investment Corporation. Economic developers play an important role in referring companies with promising products and sound financials to take advantage of federal and state export resources. For example, Columbus 2020 concentrates on connecting potential exporters with resources such as Ohio’s International Market Access Grant for Exporters (IMAGE) program, an example of a state export readiness grant (see below).

- **Foreign-Trade Zones (FTZs).** FTZs are secure areas in which merchandise can be stored, packaged, assembled, manufactured, or shipped, while deferring U.S. duties and excise taxes. Manufacturers that import and export from FTZs, without the goods entering into U.S. customs territory, can save millions of dollars in duties. EDOs that seek to create an FTZ apply to the federal Foreign Trade Zones Board.

- **Income and property tax abatements.** Some territories have also reduced income tax rates for exporters. For example, the U.S. Territory of Puerto Rico has capped the corporate tax rate to 4 percent for services exporters and also exempts them from 60 percent of their municipal property taxes. The territory offers services exporters a 20-year guarantee of these rates.¹¹⁴

- **Export loans and guarantees.** Developing export capacity requires large capital outlays, and banks are often reluctant to finance export activities because of the risk that foreign customers will default. Several state and local EDOs have developed loan programs to supplement the long-term capital loans available from private and federal financiers, usually targeted at firms that would not qualify for other loans. Alternatively, export loan programs may be capitalized with a mixture of private and public funding.¹¹⁵ Many state loan programs are designed as revolving loan funds (RLFs), so that companies’ repayments recapitalize the fund, allowing it to offer another round of loans.¹¹⁶ MassDevelopment’s 100% Export Loan product is a good example of an export loan. MassDevelopment lends exporters up to $2 million for equipment and working capital for exporters, with no down payment. Borrowers do not pay interest for the first year. Loans are amortized over seven years. MassDevelopment guarantees loans with inventory and foreign accounts receivable accepted as collateral and also insures foreign account receivables.¹¹⁷

- **Export readiness grants.** Executives at many firms would like to export but do not know how the process works. A relatively new approach to incentivizing exporting is to assist companies in developing export readiness with small grants—usually less than $25,000. The Small Business


The Administration’s State Trade Export Promotion (STEP) is a competitive program through which state EDOs gain funds to assist local exporters with the start-up costs of exporting. These grants cover costs of exporting, such as developing business plans, upgrading websites, getting international certifications, training employees, translating marketing materials, attending trade shows, and conducting market research.  

Many EDOs have created programs similar to STEP but with subtle variations. For instance, the Rhode Island Economic Development Corporation emphasizes export education with its Export Express Program, which provides grants companies up to $5,000 for export-specific training at qualified providers. For example, RIEDC gave a grant to a medical devices manufacturer seeking training on the European Medical Device Directives, a regulatory requirement to sell products in the European Union. Virginia has opted for a competitive model for its Virginia Leaders in Export Trade (VALET) grants. VALET grants of $15,000, which can be used for legal, freight forwarding, and banking services, are available to only 25 businesses per year. Some states also link their export grants back to target industries. Colorado’s Advanced Industries Accelerator Program matches up to $15,000 for the costs associated with attending trade shows, achieving certifications, and bringing products to market for businesses in the aerospace, advanced manufacturing, electronics, bioscience, and infrastructure industries.

Local and regional EDOs have also developed export development grants. For instance, the Bluegrass Economic Advancement Movement (BEAM), a regional EDO in Western Kentucky, grants up to $4,500 to small businesses wishing to increase their export activity. BEAM grants can be used to buy business development services, identify new markets, execute new international sales opportunities, conduct cash-flow analysis, do B2B matchmaking, upgrade web design, attend educational courses, and purchase translation services.

Retaining Business

Only two percent of new jobs come from relocations within the United States; the remainder comes from expansion of existing facilities and the birth of new companies. Business retention efforts enjoy greater success and higher cost efficiency than efforts to recruit businesses. Additionally, giving incentives only to relocating firms sends the signal to existing businesses that they are not

118 New York State, “Governor Cuomo Launches...”.
120 Erin Sparks, State Strategies...
123 Morgan, “For Better or For Worse.”
Incentives for Retention

- **Facilities upgrade incentives.** Incentives to upgrade facilities with renovations and equipment are inherently focused on business retention rather than recruitment. Louisiana, for example, offers a retention-oriented Modernization Tax Credit, which provides a refundable tax credit worth up to 5 percent of the costs of modernizing or upgrading existing facilities.126

- **Technical assistance.** Technical assistance can be a powerful incentive for retention—especially when businesses are facing government-created tax and regulatory problems. The Los Angeles County Economic Development Corporation’s (LACEDC) Layoff Aversion program provides free, confidential, no-obligation consulting to companies that are considering layoffs. LACEDC is able to provide financing, ownership transitions, permitting help, tax assistance, staff training, and cost containment as incentives to prevent layoffs.127 For example, executives at Los Angeles’s Republic Master Chefs faced high electrical upgrading costs in its present site and were considering relocating the company out of the county. LACEDC staff helped Republic to work with utilities companies to drastically reduce site upgrading costs, tipping the balance in favor of staying.128

Assisting Businesses to Improve Energy Efficiency

Energy represents a significant business cost. Thirty-five percent of small business owners say that energy is one of their three largest expenditures.129 In certain energy-intensive industries, such as manufacturing and data centers, the cost of doing business is even higher. The steel and iron production industry, for instance, consumes 3 percent of U.S. energy production.130 For energy-intensive large businesses and cash-strapped small businesses, energy costs can be a significant factor in site location. Yet there are significant cost savings to be had. According to the U.S. Environmental Protection Agency,

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124 ICMA, “Incentives for Business Attraction and Retention.”
128 Los Angeles County Economic Development Corporation, *A Retention Project in Central L.A. Helps LAEDC Reach the Milestone of 200,000 Jobs Retained or Created*, (Los Angeles: LAEDC).
the average office building can reduce its energy costs by 10 to 30 percent through low-cost energy efficiency measures.\textsuperscript{131}

Many developers are now seeking Leadership in Energy & Environmental Design (LEED) certification for existing and new buildings. LEED certified buildings command rent premiums of $11.33 per square feet, have occupancy rates that are 4 percent higher, and sell for between $60 and $170 per square foot more than non-green certified buildings.\textsuperscript{132} Studies suggest that companies that do not have green workplaces face a competitive disadvantage of higher operating costs, lower productivity, reduced ability to retain skilled workers, and a tarnished brand image.\textsuperscript{133}

**Incentives for Energy Efficiency**

Although subsidized electricity has been used as an incentive for many years to decrease business energy costs, many EDOs are now concentrating on promoting energy efficiency and green buildings. Some EDOs are even incentivizing companies to install their own energy production facilities, such as geothermal or solar equipment. This approach can not only improve companies' bottom lines but also reduce government costs of generating and transmitting power, while advancing environmental goals such as reducing greenhouse gas emissions.

- **Technical assistance.** EDOs have created a range of incentives for green building and energy efficiency upgrades. For instance, the City of Redmond, WA, offers dedicated staff time to offer technical assistance and expedited planning review for green buildings.\textsuperscript{134}

- **Energy efficiency loans.** With this commonly used tool, EDOs lend funds to help industrial and commercial clients reduce their energy use. Oregon's longstanding State Energy Loan Program, financed through state tax-exempt bonds, has made $420 million in loans since its inception. A newer program, AlabamaSAVES (Sustainable and Verifiable Energy Savings), makes loans of up to 90 percent of project costs, up to $4,000,000 for energy-saving


improvements. Borrowers have up to 10 years to repay the loans.\footnote{Alabama Department of Commerce, “Alabama Taxes and Tax Incentives,” Retrieved June 10, 2015.} Ponca City’s Sustainable Alternative Green Energy program illustrates the mechanics of a quasi-loan program for green energy.

**Sustainable Alternative Green Energy**  
Ponca City Development Authority, Ponca City, Oklahoma

As a result of economic restructuring, several industrial facilities in Ponca City, Oklahoma, a traditional oil-and-gas town, were facing closure. Assessing local competitiveness, the Ponca City Development Authority discovered that many of Ponca City’s industrial facilities were 15 to 20 years old, and their energy efficiency was poor by modern standards, imposing higher operating costs on owners and tenants. Development Authority officials reckoned that the region’s branch plants were particularly vulnerable to closure due to high energy costs.

The Development Authority’s answer was the Sustainable Alternative Green Energy (SAGE) program. The SAGE program comprises two incentives: Lighten the Load and the Ground Source Heat Pump (GSHP) program.

The Lighten the Load program is an incentive to install high-efficiency lighting in industrial facilities. To recruit companies into the program, the Authority uses a computer model to calculate the savings from high-efficiency lighting. Because the Authority is not legally allowed to make loans, it pays to install the lighting systems for interested companies. The cost savings through reduced energy usage are then used to amortize the cost of the lights. When the new equipment is paid off—after two and a half years, on average—companies realize a significant cost savings in energy.

The GSHP program installs ground source heat pumps, also known as geothermal energy, in the city’s industrial facilities. The program builds off of the Lighten the Load program’s success and has used similar financing structures. GSHP installation costs several hundred thousand dollars per facility. Though not every building is suitable for the installation of GSHPs, those that have the requisite construction and site size can benefit significantly from GSHPs. An added benefit of GSHPs is that they cool industrial facilities in the summer months. As, David Myers, CECeD, executive director of PCDA points out, many older industrial buildings do not have air conditioning, causing an employee retention problem during Oklahoma’s hot summer months. The GSHP thus provides a better working environment for employees in addition to cost savings for employers.

So far, 18 companies have taken part in Lighten the Load at a cost, mainly borne by the private sector, of about $150,000. These companies have since saved $530,000 in energy costs. In fact, the Lighten the Load program has been so successful that private banks have now stepped in to provide financing. PCDA
Incentives for the Twenty-First Century

now plays more of a facilitation role between industrial companies, banks, and equipment vendors. Myers says that while PCDA markets the programs to companies looking to build new facilities, the program has been primarily used to help retain existing companies through direct savings to their bottom lines.

Additionally, the program has environmental benefits for the community and has helped to reposition its image from an oil-and-gas town to an energy innovation leader. Perhaps most importantly, prior to starting the SAGE programs, the City of Ponca City was on the cusp of having to build a gas plant to cover electricity needs at peak demand, a project with a projected cost of $20 million. Thanks to the GSHP and Lighten the Load programs, community energy needs have been reduced, and the city no longer needs to build this expensive piece of infrastructure.

Placemaking for Improved Community Branding

An overwhelming body of research suggests that physical and cultural characteristics of a place have a clear influence on the attraction and retention of talent, businesses, and investment. Placemaking is the practice of creating and improving the assets that help people develop attachment to their communities. Places where residents have a strong emotional connection to their community also have the highest rates of GDP growth. Placemaking is thus about “creating quality places that people want to live, work, play, and learn in.” Assets that are frequently mentioned as making places desirable include:

- Areas of natural beauty,
- A sense of community,
- Cultural activities,
- Recreational opportunities,
- Racial and social diversity, and
- Distinctiveness and variety.

These features must be enhanced if communities wish to attract and retain an educated workforce. As talented workers are now increasingly relocating to areas with desirable amenities, businesses are increasingly considering livability as a component of site selection. Placemaking also helps to

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139 Ball, “It’s About Placemaking.”
141 Ball, “It’s About Placemaking.”
differentiate a place, which can advance branding and marketing efforts to attract investment and tourism.\textsuperscript{142}

As a result, leaders in some regions are embracing placemaking as the fundamental economic development practice.\textsuperscript{143} For example, Michigan has recently undertaken several important placemaking initiatives. Placemaking is so important to the town of Seabrook, Texas, that the town has made the contribution of a project to the town’s placemaking goals as one of the criteria for receiving an incentive of any sort.\textsuperscript{144} Because smaller communities may have difficulty attracting and retaining top intellectual capital, placemaking is particularly important for these places.\textsuperscript{145}

A vibrant arts scene is an essential element of an attractive, distinctive public realm. Artists often lead the revitalization of derelict buildings and neighborhoods, generating higher rents and property values, new retail leases, and new high-rise housing. For example, artists have been crucial to revitalization in Cleveland’s Ohio City and Detroit-Shoreway neighborhoods.\textsuperscript{146} Artist relocation incentives provide financial assistance for artists to move, rehabilitate property, and start new businesses in depressed neighborhoods. The goal of these incentives is to create a cluster of creative people that catalyze arts-based neighborhood revitalization.\textsuperscript{147} Paducah’s Lowertown Artist Relocation Program is a nationally recognized incentive for arts-based placemaking.

**Lowertown Artist Relocation Program**

Paducah, KY

Paducah’s Lowertown neighborhood was once marked by “condemned buildings, grand Victorian homes chopped up into apartments, drug use, crack sales and prostitution.”\textsuperscript{148} In response, the Lowertown Artist Relocation Program was instituted to reinvent the area into a vibrant cultural district.

Artists are alerted to the relocation program through art industry magazines, such as *Art Calendar* and *Sculpture Magazine*.\textsuperscript{149} Applicants submit a proposal for the reuse of a vacant house or lot. Successful applicants are given the opportunity to buy a house or lot for $1. They are also provided with a $2,500 grant for architectural services and a 30-year loan for 100 percent of the value of proposed

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\textsuperscript{142} Public Space Initiative (PSI), *Placemaking for Local Leaders*, (New York: Project for Public Places, Inc.).

\textsuperscript{143} Ball, “It’s About Placemaking.”

\textsuperscript{144} City of Seabrook, *Economic Development Incentives Policy*, (Seabrook, TX: City of Seabrook).

\textsuperscript{145} Ball, “It’s About Placemaking.”


\textsuperscript{149} Downtown Monmouth, “Reimagining Downtown Monmouth: Artist Relocation Programs”. Retrieved on June 9, 2015.
Incentives for the Twenty-First Century

renovations. The city of Paducah also offers grants up to $15,000 to acquire privately-owned property. The entire Lowertown area is designated as an enterprise zone, giving artists an additional incentive as construction materials are sales tax free.

The Lowertown Artist Relocation Program has spurred $40 million in renovations and new construction and 75 new business openings. The neighborhood was revitalized at a cost of just $2 million to the city. The program has been recognized by the Kentucky League of Cities Enterprise Cities Award and the American Planning Association National Planning Award.

Rehabilitating Older Buildings

Historic buildings are an important component of distinctive places. From Boston’s Old State House to Los Angeles’s Bradbury Building, iconic buildings are critical to place image. Older buildings that lack cultural importance can still serve as relatively inexpensive locations for business activity.

Incentives for Rehabilitating Older Buildings

Because rehabilitating historic buildings can also be costly and risky, many cities and states offer incentives for historic rehabilitation, such as:

- Rehabilitation grants,
- Façade improvement grants,
- Revolving loan funds,
- Low-interest loans,
- Bonus development rights,
- Regulatory relief,
- Preservation easements, and
- Transferrable development rights.

Incentives to rehabilitate historic buildings are commonly used in downtowns. For example, Missouri’s Historic Tax Credit (HTC), created in the 1990s, offsets Missouri income tax up to 25 percent of eligible expenses. The credits are transferrable, giving developers access to cash flow during renovation. The HTC has been called “the single most important incentive used in Downtown St. Louis’

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150 Adams, “Something From Nothing."
151 Downtown Monmouth, “Reimagining...”
154 Partners for Livable Communities, “Paducah.”
156 Paxton and Rypkema, “Making Downtown Revitalization Happen.”
revitalization. Saint Louis also provides historic rehabilitations with additional development rights and regulatory relief. $1.7 billion worth of development has occurred in downtown Saint Louis since 1998.  

Incentives for historic buildings are often combined with other incentives that are not specific to historic buildings, such as sales- and property-based community improvement districts, tax-increment financing or tax abatements, and urban enterprise loans.  

When buildings—historic or otherwise—sit abandoned, they create safety problems and increase the costs of police and fire coverage. Rehabilitation creates opportunities for businesses and job creation. South Carolina’s Abandoned Building Revitalization Act is an effective incentive for revitalizing abandoned buildings.

**Abandoned Building Revitalization Act**  
South Carolina  

South Carolina's Abandoned Building Revitalization Act (2013) provides developers a tax credit for up to 25 percent of rehabilitation costs of any building, regardless of historic status, that has been abandoned for more than five years. The credit can be used for expenses including renovation, environmental remediation, site improvements, and even expansions of up to twice the existing square footage. For eligible buildings, the tax credits can be combined with state and federal historic tax credits. A developer undertaking a $1 million renovation of a historic building, for example, would be eligible for credits worth 55 percent of renovation costs.

Evan Thompson, former executive director of the Preservation Society of Charleston, calls the Abandoned Building Revitalization Act, “The most powerful incentive for neighborhood revitalization.

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157 Campbell et al., “Priming the Pump.”  
158 Campbell et al., “Priming the Pump.”  
160 Thompson, “What is so Magical...”
that South Carolina has ever seen...The possibilities for stimulating community transformation are almost limitless.”

Growing Smart with Location-Efficient Incentives

Smart growth is the effort to promote compact development patterns that facilitate taking public transit, bicycling, or walking between housing, workplaces, retail, and other amenity areas. “Transit-oriented” employment development is defined as mixed-use (office, retail) development within a half mile of high-frequency public transportation hubs. Ensuring that employment areas are near affordable housing is another component of smart growth.

Smart growth patterns maximize existing infrastructure, which can, in turn, improve tax competitiveness. Smart growth infrastructure is up to 47 percent less expensive than infrastructure to service conventional development. Officials at the City of Calgary, Alberta, estimate that compact development patterns would save $11 billion over the next 60 years on roads, transit, water, recreation, firefighting, and schools.

Although smart growth is not the same as placemaking, smart growth development often has qualities that make it attractive as a place. Like placemaking, smart growth is an important factor in attracting young professionals. The majority of millennials report that living in a neighborhood where a car is not required—meaning that both amenities and employment are accessible by foot, bicycle, or transit—is a top criterion when they decided where to live. These housing preferences have driven a massive shift in population. In 2013, the population of America’s mixed-use, live-work downtowns grew 77 percent faster than the country as a whole. Compact development patterns can reduce household costs (primarily through transportation savings) and increase social mobility.

Smart growth neighborhoods have higher property values than traditional development. Walk Score is a new tool that measures the “walkability” of neighborhoods on a scale from 1 - 100. A study of the Washington, DC, metro area found for each additional 20 Walk Score points, properties add $9 per square foot to annual office rents, $7 per square foot to retail rents, and more than $80 per square foot

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161 Thompson, “What is so Magical...”
163 Grady and LeRoy, Making the Connection.
164 CMAP, Examination...
165 City of Calgary, PlanIt Calgary, (Calgary, AB: City of Calgary), 2009.
to home values. Transit-oriented development also benefits higher occupancy rates. Accordingly, smart growth development generates far higher tax revenues. Arlington, Virginia’s Orange Line Corridor makes up only 8 percent of the county’s area but generates 33 percent of its real estate tax revenue.

Smart growth is also beneficial for businesses. Smart growth can reduce commute times, congestion, and pollution—all of which have quantifiable costs for businesses. Areas with greater business density are more productive and innovative. Just a 1 percent increase in regional business density can increase GDP by as much as 38 percent, reduce unemployment by as much as 20 percent, and increase patents by as much as 52 percent. It is little wonder, then, that smart growth development patterns are increasingly a key location factor for entrepreneurs deciding where to start a business.

Incentives for Smart Growth

Smart growth is commonly promoted by urban planners. However, the Federal Reserve Bank of Boston finds that many economic developers are not coordinating their business attraction incentives with urban planning policies that promote compact urban form. Many incentives for business development promote greenfield development that requires new infrastructure investment and is not accessible for transit.

In response, economic developers are increasingly working to ensure a close match between economic development incentives and smart growth incentives.

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172 CONNECT Our Future, “Transit Oriented...”


175 Battelle, *Strategy for Prince George’s County*.

- **Zoning bonuses for business uses.** Bonuses allow for greater lot coverage and height for employment uses in designated compact development areas, such as near rail stations.\(^{177}\)

- **Brownfield remediation incentives** (see also Brownfields).

- **Tax and fee exemptions.** These exemptions reduce the cost of employment-related land development in designated compact development areas, such as near rail stations or in downtowns.

- **Expedited permitting for infill projects.** Expedited permitting, an example of a “non-financial” incentive, can save developers significant costs. For example, Silver Spring, Maryland, prioritizes development application processing in its central business district. The city markets the incentive as the “Green Tape Zone.”\(^ {178}\)

- **Reduced parking requirements.**\(^ {179}\) Parking requirements contained in zoning codes are often onerous for business--these costs can result in lower wages and higher prices.\(^ {180}\) Relaxing of downtown zoning requirements reduces the costs of building parking structures—which can cost as much as $50,000 per parking space to construct.\(^ {181}\) In suburban locales, less parking means lower land requirements, which can reduce businesses' property tax burdens and free up land for further development. Austin, Oakland, and San Francisco have removed parking requirements in their downtowns for office as well as housing uses.\(^ {182}\) In Downtown Portland, Oregon, 55 buildings have been constructed since 2006 without parking.\(^ {183}\) As a regulatory incentive, relaxed parking standards are extremely inexpensive to enact and saves businesses substantial sums of money.

\(^{177}\) ArtScape, “Approaches...”


\(^{179}\) CONNECT Our Future, “Transit Oriented...”


➢ **Reassessing fee structures.** Public safety, school, and water fees can sometimes act as a disincentive to transit-oriented development.\(^{184}\) Fees should be regularly reviewed to determine whether they accurately reflect the higher costs of servicing non-compact development.

➢ **Streamlined permitting processes and as-of-right zoning.** Complex and unclear land use planning policies frequently serve as significant disincentive to transit-oriented development, especially in downtown areas. The prospect of long review processes, followed by the uncertainty of obtaining approval from zoning boards and other political bodies, can be enough to drive some developers to pre-zoned greenfield locations. EDOs can avert this outcome by working with community leaders to identify “acceptable” development on various sites and pre-zoning them, allowing developers to build some forms of compact development “as of right.”

➢ **Transportation assistance.** An important element of smart growth is ensuring that workers can get to workplaces. The Memphis Area Rideshare program provides no-cost vanpool services including passenger vans, maintenance and insurance to employers, and a ride matching program for employees. The benefits of participation in the program include less congestion, reduced parking needs, decreased employee absenteeism, and an expanded labor market.\(^{185}\)

➢ **Live where you work incentives.** Live where you work incentives are used to promote the value of living near a workplace to employees. This can reduce commute times and transportation costs for employees and serve as a catalyst for neighborhood revitalization. An excellent example of this form of incentive is the Live Midtown incentive in Detroit.

**Live Midtown**

Detroit, Michigan

In 2011, Philadelphia-based U3 Advisors was chosen to create an anchor-based strategy with the goal of increasing the vitality, safety, and welfare of the struggling Midtown Detroit neighborhood.\(^{186}\) The strategy created Midtown Detroit Inc., a nonprofit EDO to take care of neighborhood beautification, infrastructure improvements, and small business assistance. Midtown Detroit Inc. also manages the Live Midtown incentive.

The Live Midtown incentive is primarily oriented towards employees of the neighborhood’s three anchor institutions—Wayne State University, Henry Ford Health System, and Detroit Medical Center. Under the program, institutional employees who relocate their residence to a strictly delineated area in Midtown are offered up to $20,000 towards the purchase of a home (about 10 percent of the area’s

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\(^{184}\) Battelle, *Strategy for Prince George’s County*.  
\(^{185}\) Greater Memphis Chamber, *Economic Development Incentives*, (Memphis, TN: Greater Memphis Chamber).  
Incentives for the Twenty-First Century

median home value) and an additional $5,000 for home improvements. The program, recognizing that many young professionals prefer to rent, also offers up to $2,500 in rent allowances for the first year and $1,000 the second year. Existing homeowners get $5,000 in matching funds for renovations. The various classes of the incentive show the importance of using varied treatments for different kinds of recipients.

The program is one way that anchor institutions have been engaged in the neighborhood’s revitalization. The three anchors, along with two local foundations, each committed $200,000 per year, 2011 - 2015, for the incentives. Anchor institutions promote the incentive to their current and prospective employees, which has proven to be an effective recruiting tool for out-of-state hires, and for Wayne State international students.

Midtown Detroit Inc. produces a quarterly report on the demographics of applicants and incentive recipients. In just two years since the program’s inception, nearly 1,000 employees have taken advantage of the program. The Live Midtown program has been an instrumental part of a neighborhood renaissance that has led to:

- 35 percent increase in home values (while average Detroit home values have stayed flat);
- $10.5 million in new rent payments;
- 40 new businesses in the area;
- 20 new mixed-use developments;
- Occupancy rate of 97 percent;
- Increased spending on household goods and entertainment; and
- Increased employee productivity and satisfaction.

The incentive’s narrow geographic target is credited as a factor in its success.

- **Transit-oriented development tax credits.** Traditional business attraction incentives do not always promote compact development patterns. A number of states, including Maryland, New Jersey, and California, have passed legislation to ensure better alignment between smart growth initiatives and business attraction incentives. Illinois’s policy for ensuring business incentives promote smart growth is located inset. Local EDOs are also connecting business incentives with smart growth principles. For example, in Prince George’s County, Maryland, brokers and real estate developers convinced county officials that compact, transit-oriented development was critical to attracting business services companies, such as federal government contractors and

187 MML, "Live-Work....".
188 MML, "Live-Work....".
189 Grady and LeRoy, Making the Connection.
management consultancies—one of the county’s priority industries. The county is now developing incentives, such as corporate tax credits, that promote transit-oriented development.

**Business Location Efficiency Incentive Act (2005)**  
Illinois

Under Illinois’s Economic Development for a Growing Economy (EDGE) incentive, businesses are awarded credits to corporate income tax based on the value of personal income taxes that will be created at companies that are relocating or expanding. To qualify for EDGE, companies must make a minimum of $5 million in capital investment and create 25 new full-time jobs (at companies with fewer than 100 employees, $1 million in capital expenditure and five new employees are required). Companies must also demonstrate that they are seriously considering relocating or expanding outside Illinois.  

In 2005, Illinois legislators discovered that the EDGE grants were contributing to urban sprawl. As a result, legislators passed the Business Location Efficiency Incentive Act, which revises the EDGE incentive to better align with the state’s goal of promoting compact development. The Act defines a location-efficient project as one that “avoids or minimizes additional government expenditures for new infrastructure, and has nearby housing affordable to the permanent workforce of the project or has accessible and affordable mass transit.” Companies that locate in location-efficient sites get a 10 percent bonus on EDGE payments. To qualify for the bonus, applicants must demonstrate that the site already has utility and road infrastructure and that it is close to affordable workforce housing and accessible by mass transit. Alternatively, companies can receive the bonus if they submit an approved employee housing and transportation remediation plan.

**Brownfield Remediation**

The EPA defines brownfields as "abandoned, idled or underused industrial and commercial properties where expansion or redevelopment is complicated by real or perceived environmental contamination." Brownfields include deteriorated former industrial buildings, cleared land, service stations, and former railroads. Many brownfields are contaminated with heavy metals, asbestos, and PCBs, presenting a major source of liability to current owners and prospective developers. In the United States, there are estimated to be at least 425,000 brownfields; some five million acres of former industrial property sits abandoned in urban areas.

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195 Illinois Commerce, “EDGE.”
196 Environmental Law Institute [ELI], "Brownfields Center,” Retrieved June 1, 2015.
Prospective developers face high cleanup costs and the risk of debilitating lawsuits. These costs are often compounded by unclear ownership and unpaid taxes. For this reason, EDOs often incentivize brownfield redevelopment. Brownfield remediation has many benefits:

- **Increased property values** on the target site and adjacent properties.\(^{197}\) Brownfield renewal adds as much as $4 million to property values of nearby sites, while cleanup costs average only about $600,000 per site.\(^{198}\)

- **Higher property tax revenues.** Cities are losing billions of dollars by failing to clean up brownfields. A study of 33 cities found that cleaning up brownfields would increase tax revenues by as much as $386 million.\(^{199}\)

- **Improved health outcomes,** by ensuring that runoff from dirty sites no longer enters into watercourses, which threatens drinking water and natural habitats.\(^{200}\)

- **Beautification,** and as a result, an improved neighborhood and community image.\(^{201}\)

- **Improved community safety,** as brownfields are often sites of injury, vandalism, and arson.\(^{202}\) Areas around cleaned-up brownfields may also experience reductions in crime.\(^{203}\)

- **Cost-efficient use of existing infrastructure.** Developments on former brownfields create 32 to 57 percent fewer vehicle miles traveled than would an equivalent greenfield project.\(^{204}\)

- **Efficient use of land** and support for smart growth initiatives to save natural habitats and farmland.\(^{205}\) A recent study found that every acre redeveloped for brownfields would consume 4.5 acres if built on a greenfield.\(^{206}\)

- **Strengthened community identity** through the preservation and rehabilitation of historic, cultural, and social icons.\(^{207}\)

- **Better economic opportunity** for residents of inner cities (many of whom are poor and minority), where most brownfields are located.\(^{208}\)

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\(^{200}\) ELI, “Brownfields Center.”

\(^{201}\) Canadian Institute for Environmental Law and Policy [CIELAP], *What are the Benefits of Brownfield Redevelopment?* Retrieved on June 1, 2015; ELI, “Brownfields Center.”

\(^{202}\) CIELAP, *What are the Benefits...*

\(^{203}\) US Environmental Protection Agency [EPA], “The EPA Brownfields Programs Produces Widespread Environmental and Economic Benefits.” Retrieved on June 1, 2015.

\(^{204}\) EPA, “Widespread Environmental and Economic Benefits.”

\(^{205}\) Port of Portland, *Brownfield/Greenfield...*

\(^{206}\) Deason et al., *Public Policies and Private Decisions...*

Incentives for Brownfield Remediation

The federal government has created a number of incentives for brownfield remediation, including a tax deduction of qualified cleanup costs on eligible properties. Many states and localities have also created incentives to further spur redevelopment. These tools include:

- Tax increment financing districts that allow the issuance of bonds to cover development costs, such as infrastructure;
- Revolving loan funds;
- Enterprise zones;
- Property tax deferrals;
- Business tax rebates;
- Sales tax deferrals;
- Reduced fees for government services;
- Reduced fees for permits;
- Targeted use of eminent domain authority to assist with land assembly and clearing title;
- Liability forgiveness; and
- Subsidized liability insurance.

Michigan’s Voluntary Cleanup Program was instituted to redevelop the state’s many brownfields. The program offers incentives, such as covenants not to sue, outright liability exemptions, and third party liability relief for lenders and innocent new land owners. Michigan also offers grants of up to $1 million for the assessment and remediation of sites. The grants were made possible through two bond issues, together worth more than $1 billion.

The state of Florida has created an incentive specifically aimed at job creation in brownfield zones. Brownfield Redevelopment Bonus Refunds are tax rebates up to $2,500 for each job created in designated Brownfield areas.

The Minnesota Department of Employment & Economic Development uses two different programs to clean up and redevelop brownfields. The Contamination Cleanup and Investigation Grant program pays up to 75% of costs to investigate and cleanup sites, and the Redevelopment Grant pays up to 50% of redevelopment costs. Local governments access the programs for private development projects that result in increased jobs and tax base.

New Approaches to Brownfields

209 ELI, "Brownfields Center."
210 ELI, "Brownfields Center."
212 Deason et al., *Public Policies and Private Decisions,...*
Historically, most brownfields were redeveloped for housing and retail use, which command high land values. Comparatively less emphasis has been placed on remediating brownfields and returning them to their original purpose—industrial use. The Environmental Business Council of New England notes, "The process of brownfield development has traditionally lacked a comprehensive industry specific, end-user driven analysis through incorporating site selection and business attraction principles." In many built-out cities, brownfields are some of the few sites that could be developed for non-office employment use, yet industrial policy has become problematically disconnected from brownfield policies that promote redevelopment for non-industrial purposes.

Nathanael Hoelzel, a researcher at Georgia Tech, says, “Planners should have a strategy to ensure that productive industrial areas remain for future opportunities. I equate the loss of productive industrial space to farmland—once it’s lost, it’s impossible to reclaim it.” Converting brownfield land to non-industrial uses weakens the economic base by reducing the amount of land available for job production in inner cities and contributes to suburban industrial sprawl.

Not every former industrial site is appropriate for new employment uses, because of size, access, or land use incompatibility. But zoning codes that completely restrict industry in central cities are often a legacy of older manufacturing and do not take into account today’s low-impact, high-performance industrial development. Urban locations remain attractive for industrial companies as well. On many sites, the factors that made them initially attractive for industrial use, such as access to transportation infrastructure (highways, rail, and ports), proximity to labor markets, and nearby universities, remain in place.

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218 Hoelzel, “Blind Side.”
Reusing a site for industrial purposes can be significantly less expensive than developing it for residential or other community uses, as the threshold for de-contamination is usually lower for commercial uses. For example, by building industrial facilities without basements, contaminants can be contained rather than removed, significantly reducing remediation costs.\(^{221}\) A particular advantage of urban locations, says Scott Page of Philadelphia-based Interface Studios, is their proximity to labor markets. Industry in the suburbs has greater difficulty finding employees, because despite good freight accessibility, sites are often inaccessible to workers. Increasing industrial employment is the best opportunity to create middle-income jobs in central cities. Experts also see dense concentrations of manufacturers in urban areas as leading sources of innovation.\(^{222}\)

Industry on former brownfields need not just be heavy manufacturing and can take many forms—activities centered on the production, distribution, and repair of goods and materials.\(^ {223}\) Brownfield sites in Pittsburgh, Cleveland, Detroit, Grand Rapids, and Youngstown have been remediated for tenants that include medical devices manufacturers, artisanal woodworkers, distribution facilities, fabric designers, and metalworkers. In Philadelphia, one site even became a mixed-use property that included both industry and housing, complete with a farmer's market and daycare.\(^ {224}\) Urban industry is also not all about small-scale or "artisanal" manufacturers. Larger sites should be reserved for facilities that employ several hundred.

However, the biggest hurdle to redeveloping brownfields for expanding or relocating industrial uses is the timeframe needed to prepare the site for a new user. Brownfield remediation often takes several years, far too long of a delay for a company seeking a shovel-ready site. Page says that it is essential to protect brownfields as employment lands—not only through zoning but also through additional protections, such as designating sites as "planned manufacturing districts." These districts set clear expectations for where land will be reserved, and infrastructure upgraded, exclusively for new industrial uses. Leaders in San Jose, Minneapolis, Baltimore, and Seattle use these designations.\(^ {225}\) Planned industrial district designations create an incentive for real estate developers to begin remediation of lands with the intent of selling them for industrial use. As Philadelphia’s industrial land strategy states, "In order for new industrial development to occur, the market must know that zoning designations are definitive."\(^ {226}\) Because for-profit developers and banks are often unwilling to take on the risks of speculative remediation projects, economic developers can fill the role of proactive brownfields remediation. The Philadelphia Navy Yard is an example of a public-led brownfield redevelopment.

\(^ {223}\) PIDC, Industrial Market and Land Use Strategy...
\(^ {224}\) Badger, “Redeveloping Former Industrial Sites...”
\(^ {225}\) Hoelzel and Green Leigh, “A New Normal...”
\(^ {226}\) PIDC, Industrial Market and Land Use Strategy..."
Philadelphia Industrial Development Corporation and the Navy Yard
Philadelphia, Pennsylvania

The Philadelphia Navy Yard is an example of a brownfield remediation led by a non-profit economic development organization. The 1200-acre site ceased its function as a U.S. Navy base in 1996. In 2000, the Philadelphia Industrial Development Corporation (PIDC) acquired the land. Though the Navy Yard has an attractive waterfront location, PIDC master planned the area for employment rather than residential uses. PIDC invested $150 million in improvements, including land remediation, historic preservation, and green energy infrastructure features.227

Businesses locating in the Navy Yard can take advantage of a number of additional incentives, including tax abatements for targeted industries and credits for research and development activity. PIDC’s investments have so far leveraged $750 million in private construction, totaling 7 million square feet of renovated former naval buildings and new LEED-certified space.228 The Navy Yard today hosts 145 companies in office, manufacturing, and research and development, employing 11,000 workers. It also is home to the headquarters of GlaxoSmithKline and Urban Outfitters. At full build-out, the Navy Yard will support 13.5 million square feet, 30,000 workers, and $3 billion in private investment.229

Conclusion: The Future of Incentives

Economic developers remain interested in using incentives as a tool to help businesses grow, create jobs, and increase community welfare. This paper is the third of EDRP's papers on using incentives innovatively, effectively, and responsibly for community growth. More than Money: Alternative Incentives that Can Benefit Companies and Communities discussed how many economic developers are deploying non-financial incentives in addition to, or instead of, financial incentives. Seeding Growth: Maximizing the Return on Incentives offered economic developers instructions on measuring the return on investment for individual incentives and entire programs.

This paper is an effort to capture today’s best practices in the use of incentives with descriptions and case studies of innovative and effective incentives. Although these incentives vary substantially in their form and intent, they share several characteristics. Incentives for the twenty-first century:

- Reduce business costs;
- Influence business decisions;
- Advance social and environmental welfare; and
- Connect with well-established best practices in economic development.

These incentives, when used properly, can help to advance community wealth and welfare. They represent today’s best thinking on incentives. Economic developers should continue to innovate new...
ways to grow community wealth by creating an encouraging environment for private business development.