Economic Development Incentives in Selected Southern States

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Incentives are tools that have been utilized by states to promote economic development for decades. A 2013 report by The Council of State Governments declared that states spend billions of dollars each year on tax and other financial incentives. Unfortunately, the report also went on to state that policymakers often don't have an understanding of the true cost of those incentives or how effective they are in achieving the state's economic development and job creation goals.[1] Although this work is not intended to be an examination of the questions raised by such a report, it will provide a broad overview of incentives in Louisiana and three other southern states. It will also provide some insights into how each of these states are doing in measuring results. Because they are both southern and states with which Louisiana often competes for economic development projects, the states of Georgia, Alabama, and North Carolina have been selected for comparison purposes.

According to the Council for Community and Economic Research, Georgia has 32 incentive programs followed by Alabama with 29, Louisiana with 27, and North Carolina with 25.[2] Although the knowledge of the number of incentive programs is helpful as a starting point, the number of programs sheds no light on their effectiveness. When looking at incentive programs, it is logical to conclude that there are a couple of different constituencies for whom different types of data are important. The first constituency is that of business owners and operators who analyze how effectively a package of available incentives will meet their business needs and goals. The second constituency is that of policymakers and citizens within a given state. Their concerns are the costs of these incentives and the return on investment they receive on incentives when utilized.

For business owners and operators, the analysis of incentives is straightforward and quantifiable. Once they know the specifics of a package of incentives, they have the ability to calculate the value of the impact of these incentives on their costs. The company can then make a decision based on those numbers.

As pointed out earlier, the analysis for policymakers and citizens is not as clear-cut. The good news is that many states are making progress in efforts to make quantifiable information available to this constituency. A 2017 report by The Pew Charitable Trusts stated "in the last five years, 27 states and the District of Columbia have made progress in gathering evidence on the results of their economic development tax incentives."[3] The report looked at the 50 states and the District of Columbia and divided them into categories of those states that were leading (10 states), those that were making progress (18 states), and those that were trailing (23 states). Louisiana and Alabama both made the list of those making progress while Georgia and North Carolina both made the list of those trailing.

Because of the number and variety of incentive programs, along with differences in tax structures across states and localities, it is challenging to develop an apples-to-apples comparison of incentives from state to state. It is also difficult to understand and quantify the difference that incentives make in location decisions and, in the case of community success in landing a project, the resulting economic impact.[4] I found some studies which analyzed the value propositions of incentives in certain situations or on certain projects but did not find any useful state-to-state studies on incentives. Although I found some information such as the Pew study that described broadly which states are doing well on improving their reporting standards, I found no quantifiable comparison study for the subject states. For this reason, I chose to look at reports provided by the states themselves to find the incentives that they rank as most important and review their self-assessments on how they are doing in attracting jobs and the role that incentives play in these efforts.

Louisiana - In the 2017 Louisiana Annual Report, the Louisiana Department of Economic Development chose to highlight accolades and recognitions, as follows:

- "Top 5 State for Doing Business" by *Area Development;*
- "Top 10" in *Site Selection Magazine's* Prosperity Cup;
- "No. 1 Southern State with Most Project Wins Per Capita" by *Southern Business and Development*;
- "7th Best Cost of Doing Business" by *Business Facilities*;
- "4th Best Small Business Environment" by Thumbtack.com;
- "No. 4 in Cooperative and Responsive State Government" by *Area Development*.[5]

The lead project mentioned in the report was a 2000 job Digital Transformation Center announced by DXC Technology to be located in New Orleans. Among the incentives credited with landing DXC were a Digital Interactive Media and Software Development program and LED FastStart, a workforce development program that helps companies recruit and train workers. A November 13, 2017, article in *The New Orleans Advocate* called the DXC announcement the single largest job announcement in the history of New Orleans and described a total incentive package valued at around $115 million, $25 million of which is part of a higher education initiative to help grow the potential tech workforce by expanding the number of degrees that Louisiana higher education institutions offer in science, technology, engineering, and math. The article mentioned other incentives that were part of the package were $18.7 million in performance based grants and the Quality Jobs Program. The Quality Jobs Program provides a cash rebate of up to 6 percent of a company's annual payroll for up to a decade—which could be worth up to $57 million to DXC.[6]

Another incentive program that Louisiana believes will have a large return is a twist on film production tax incentives that were pioneered by the state in 2002. Although highly successful in luring projects, including several major motion pictures to the state, Louisiana has been looking for a way to use film incentives to grow the number of permanent jobs. In 2017, the state created Qualified Entertainment Company (QEC) incentives that reward companies that create permanent quality jobs for Louisiana residents. QEC employers are eligible for a 15% payroll tax credit for jobs paying $45,000 or more annually and 20% for those over $66,000 annually with a limit of $1 million in payroll credits per year. In April of 2018, Louisiana Economic Development announced that Deep South Studios in New Orleans will be Louisiana's first Qualified Entertainment Company. Deep South is beginning to develop an initial phase of a complete studio complex that is expected to entail 11 buildings with a total of 262,000 square feet and a capital investment of $63.5 million.[7]

In January through November of 2017, Louisiana reported that 13,138 jobs were created and 7,714 jobs were retained which helped lower an unemployment rate that declined from 5.9% to 4.7%. During 2017, LED also claimed 43 project wins with a total capital investment of $4.66 billion.[8]

Georgia - In Georgia's 2017 Year in Review report, the Georgia Department of Economic Development (GED) touted the state as the number 1 state in the nation in which to do business according to both *Site Selection* magazine and *Area Development* magazine.[9] Although these rankings are certainly coveted by states and speak to an overall business climate, they do not necessarily do a deep dive into how these translate into jobs or add net taxes to a state's bottom line. Although GED does list a number of incentives on their website such as tax credits and exemptions, the theme of the website is their great business climate and they do not go into great detail about these incentives.

True to the Pew study that listed Georgia as a trailing state in reporting results attributed to incentives, GED had very little year to year comparison data in annual reports. A November 2018 article in which Georgia again topped the list of State Business Climate Rankings illustrated the percentage growth of certain Georgia industries far outpacing the percentage growth of the U.S. as a whole over a recent 5-year period. The categories listed were Electrical Equipment, Appliances, and Components; Fabricated Metal Products, Machinery; Motor vehicles, Bodies and trailers and parts; and Wood Products. With the exception of the motor vehicle category, which Georgia led by about 9 percentage points, the state had a double digit lead in every category. The same categories were used to review job growth and the state did even better from this perspective in comparison to the U.S. as a whole. Georgia led by double digits in every category with two categories really standing out. In Fabricated Metal Products, Georgia had a growth of over 15% while the rest of the nation had negative growth. However, the biggest surprise was the motor vehicle category. Although that category was the closest between Georgia and the rest of the nation in terms of manufacturing growth, when measured in terms of jobs, Georgia's growth was over 35%--roughly twice the growth of the rest of the nation.[10]

North Carolina – Although North Carolina does have a Department of Commerce, the Department contracts economic development services to the Economic Development Partnership of North Carolina (EDPNC), a nonprofit public-private partnership which serves as the statewide economic development organization.[11] On their website, they list incentives such as tax exemptions, workforce training, cash grant programs, programs to provide funds for building demolition and reuse, and programs to fund public infrastructure and transportation projects designed around job creation.

Much like Georgia and true to the Pew study, North Carolina has no annual report information that seeks to quantify how incentives led to job growth or return on investment in terms of government revenue. The marketing materials and news releases are geared toward the business constituency rather than the policymaker or taxpayer constituency. They tout a number of economic development wins along with recent recognitions from economic development trade publications. For example, they highlight being named as the most competitive state in the nation in *Site Selection* magazine's Prosperity Cup edition in May 2018 as well as being listed as the number 1 state for business according to a November, 28, 2018, article in *Forbes* magazine.[12]

The North Carolina Department of Revenue releases a report on tax expenditures related to incentives every two years; however, the report only lists expenditures and recipients and does not provide any details.[13] Although the North Carolina Department of Commerce also produces an annual report, it contains only broad economic information. The 2017 report is only two pages long and provides that the number of announced projects during the previous year was 290, the number of jobs was 24,501 and the total announced investment was $4.86 billion.[14]

Alabama – Like North Carolina, Alabama has a Department of Commerce under which economic development functions fall. They also have a private statewide economic development organization known as the Economic Development Partnership of Alabama (EDPA). However, unlike EDPNC, EDPA appears to be a completely privately funded organization which works as a true partner of the Department of Commerce and other economic development organizations as opposed to receiving public funding for the work they perform.[15]

According to the Alabama Department of Commerce, the most important incentives they offer are:

- An investment credit of up to 1.5% annually on a qualified capital investment for a qualified project for up to 10 years;
- A jobs credit of up to 3% annually of the previous year's gross payroll for eligible employees for up to 10 years;
- Sales and use and property tax abatements for new facilities and expansions;
- Tax abatement programs for refurbishments, upgrades or placed back in service facilities;
- A port credit to promote cargo shipping;
- A growing Alabama credit to help fund site preparation and public infrastructure needs of existing industrial sites;
- A number of job training programs through AIDT, Alabama's agency for worker training.[16]

In their 2018 Statewide Economic Overview, the Alabama Department of Commerce touts that the state's auto plants produced more than 1 million vehicles and exported nearly $8 billion worth of autos and they credit the industry with helping to attract 68 new projects with over $1 billion in new investment. The report also states that exports in aerospace products jumped 65 percent to $1.4 billion and that chemical exports are $2.2 billion.[17] However, aside from these numbers, the report does not provide any measureable information to help the reader get a sense of how the state is doing overall in creating jobs and the role that incentives may have played in any expansion of jobs and economic activity. Although the Alabama Department of Revenue does have some reports related to incentives on their website that do provide data and opinions about the effectiveness of some targeted programs, there was not enough data to draw strong conclusions about Alabama's overall incentive programs.[18]

Because of difficulty in finding information needed for a straightforward comparison of these states, I searched for data that could provide a broad overview as to how these states have done overall in the last several years. In terms of population from April 2010 to July 2018, the U.S. population grew at a rate of 6%, North Carolina grew at a rate of 8.9%, Georgia grew at 8.6%, Louisiana at 2.8%, and Alabama at 2.3%.[19] In terms of per capita personal income (PCPI), the compound annual growth rate for the nation from 2007-2017 was 2.6% while that of North Carolina was 2.1%, Georgia was 2.2%, Louisiana was 2%, and Alabama was 2.3%. Lastly, the real Gross Domestic Product (GDP) growth rate for the U.S. from 2007-2017 was 1.5%. During the same period, the growth rate for North Carolina was 1%, Georgia was 1.2%, Louisiana was -0.3%, and Alabama was 0.4%. [20]

What, if anything, can be determined from this data? As I read through different reports about business location decisions, it became increasingly clear that it is highly unlikely that any single factor, such as incentives, is key in businesses making a decision as to where to locate. The most important factors in location decisions relate to the overall business climate and the data above suggests that Georgia and North Carolina, two states which are consistently ranked extremely high in state business climate rankings, are doing well in terms of population and GDP growth when compared to Louisiana and Alabama.

A foreword to a 2015 Ernst & Young survey confirms the continuing increase of the list of factors considered by companies when making location decisions. It goes on to clearly state that taxes and incentives are not the sole drivers of such decisions. However, the study points out that tax credits and incentives are still important and should be a consideration when companies are making location decisions. It states that companies who are actively looking for tax credits and incentives when reviewing possible locations "are twice as likely as others to find that when two or more potential locations are evenly suited on other fronts, such benefits can become the deciding factor."[21]

In a November 2018 article in *Site Selection* magazine, Dr. Tim Bartik, who has long studied state and local economic development policies and incentives, states that current trends in incentives are unsustainable. As an example, he points out the 2017 Foxconn deal in Wisconsin which he says is 10 times as large per job as the average incentive. However, rather than advocating doing away with incentives, he suggests reforming them. He makes the case that targeted incentives can and do pay off and says that sustainable economic development strategies should be balanced. To help achieve such balance, he suggests that communities and states should do four things: 1. "Put budget caps on incentives." 2. "Govern incentives by rules to limit expensive one-time deals." 3. "Cut back on incentives by targeting high-multiplier industries." 4. "Balance tax incentives to larger firms with business services to smaller firms."[22]

In the same article, Bartik goes on to say that high-tech, when clustered, can be one of the high multiplier industries where targeted incentives can really pay off. If Bartik is correct, this could be very good news for Louisiana. For years there has been an effort by economic developers to promote the growth of high tech companies in Louisiana. This has resulted in some economic development wins, articles promoting "Silicon Bayou", and even an online news publication focused on Louisiana technology entrepreneurs named *Silicon Bayou News*.[23] The DXC Technology announcement seems to signal that this work, along with well-designed targeted incentives, is paying off in a big way in an industry that has the ability to pay great dividends for the state for many years to come.

Louisiana, Alabama, Georgia, and North Carolina are all southern states that compete with each other to attract economic development projects and, as part of this process, each utilizes incentives to some degree. While incentives are likely to remain an important tool for economic developers for the foreseeable future, current trends indicate that policy makers and the public will continue to demand more information regarding the return on investment received when these incentives are employed. This attention on accountability in the area of incentives is likely to lead economic developers to renew their focus on the overall business climate and all of the factors that make up this climate in their jurisdictions. Two of the subject states are already doing this. Although Louisiana and Alabama are credited with making progress in reporting on the effectiveness of their incentives, Georgia and North Carolina, two states which are behind in this respect, have put the focus on promoting their positive business climate. Although all four of the subject states have had some recent economic development successes, when measured in terms of GDP and population growth, Georgia and North Carolina have clearly been the most successful among this group in the last few years.

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