Nebraska Economic Development Task Force
2017 Report

Task Force Members

Senator Sue Crawford, Chair, Member at Large (CD 1)
Senator John McCollister, Vice Chair, Member at Large (CD 2)
Senator Joni Albrecht, Business & Labor Committee Chair
Senator Mike Groene, Education Committee Chair
Senator Brett Lindstrom, Banking, Commerce & Insurance Committee Chair
Senator Paul Schumacher, Planning Committee Chair
Senator Jim Smith, Revenue Committee Chair
Senator John Stinner, Appropriations Committee Chair
Senator Dan Watermeier, Member at Large (CD 3)
Senator Justin Wayne, Urban Affairs Committee Chair

Nebraska Economic Development Task Force
2017 Report

The Nebraska Economic Development Task Force was created in 2017 pursuant to LB230 (as amended into LB641) introduced by Senator Dan Watermeier. The statute calls for the Task Force to be composed of 1) the Chairs of the following standing committees: Appropriations; Business & Labor; Banking, Commerce & Insurance; Education; Revenue; and Urban Affairs; 2) the Chair of the Legislature's Planning Committee; and 3) one at large member from each congressional district as appointed by the Executive Board of the Legislative Council. The Task Force is called to meet during each legislative interim until January 1, 2021.

As outlined in statute, the Task Force is charged with three main objectives:

1. Collaborating with the Nebraska Department of Economic Development and the Nebraska Department of Labor to gather input on issues pertaining to economic development and discussing proactive approaches on economic development.
2. Monitoring analysis and policy development in all aspects of economic development in Nebraska.
3. Discussing long-range strategic plans to improve economic development within the state.

Over the 2017 interim, the Task Force met monthly to discuss these objectives with key stakeholders. The statute requires the Task Force to report economic development priorities to the Legislature at the end of each year. This report outlines the Task Force's 2017 economic development priorities and highlights some of the information presented at the monthly meetings related to these priorities. This is the first of four annual reports that will be published by the Task Force.

Priority 1) Attracting and Retaining Population

Nebraska's relatively low population and unemployment rate pose unique challenges. Nebraska Department of Economic Development (DED) Director Courtney Dentlinger, who has since left DED and was succeeded by Director Dave Rippe in December 2017, noted that Nebraska's very low unemployment rate (2.7% in November 2017, compared to a national rate of 4.1%)[1] is a cause for concern to some companies that are considering relocating or opening new operations in the state. Without enough workers who possess or can be trained in the proper skills, a new business venture will struggle to succeed. Director Dentlinger and Commissioner of Labor John Albin noted that many communities have workers who consider themselves underemployed. They stressed that many of those underemployed individuals are looking for new job opportunities even if they are not counted in the official unemployment rate. DED and the Department of Labor have statewide data that highlights these underemployed workers,[2] which is critical when recruiting new businesses or helping businesses expand in Nebraska.

To address the population and workforce shortage issues in many communities, DED recommended that the Task Force consider ways to attract and retain population in the state. One suggestion for the Task Force to consider is how to support resident graduates who stay in Nebraska. Attracting other young people to the state requires different approaches, but is critical if Nebraska is to have enough skilled workers to fill needed positions.

A key strategy discussed by the Task Force to attract and retain both residents and non-residents is to establish dedicated funding for the existing Intern Nebraska program, which is overseen by DED. This program provides grants to reimburse Nebraska businesses that create paid internship positions for high school students, college students, and recent graduates. Considering more than half of young people who participate in an internship become full-time employees where they intern, financing this program will help ensure that young people studying in Nebraska will continue to be connected with and employed by local businesses.[3] Funds for the Intern Nebraska program are set to run out at the end of 2017. <u>As a result, it is important that money be designated to support Intern Nebraska to ensure that this program can continue to place qualified young people with potential Nebraska employers. Ensuring that this program remains sustainable for future years will also be critical.</u>

Another possibility for recruiting people to the state, suggested in a report prepared for DED by consultancy SRI International, is for Nebraska's higher education institutions to make some percentage of seats in high-demand degree programs available to non-residents at in-state tuition and fee rates.[4]

Chuck Schroeder, Founding Executive Director of the Rural Futures Institute (RFI), told the Task Force about the unique challenges facing rural and micropolitan communities. He noted that communities can attract and retain young people through four key avenues: providing "genuine economic opportunity" to be creative and productive; access to quality education both in K-12 and beyond; access to quality healthcare and health ecosystems; and the presence of "quality of life amenities" such as arts, community engagement opportunities, and local entertainment options.[5] He also highlighted some of the programs RFI operates in Nebraska to promote rural attraction and retention for young people, including a young professional network, rural community serviceships, and the Marketing Hometown America program.

Multiple organizations dedicated to the arts also urged the Task Force to provide avenues for population growth and workforce development in the artistic and cultural sectors. Promoting growth in this industry, they argued, creates avenues for economic development and community revitalization.[6] These groups propose that a formalized state role in the creation of arts and cultural districts would be a way to attract and retain artists and creative entrepreneurs. They also argued that these districts could generate additional local and state revenue through increased tourism.

Priority 2) Workforce Development

Producing workers whose skills align with Nebraska's economic demands is critical to continued development. Task Force members heard repeatedly that workforce shortages pose serious challenges for our existing businesses, and for efforts to recruit new business. <u>As a result, policies to recruit, retain, and develop the state's workforce must take high priority.</u>

Nebraska's Coordinating Commission for Postsecondary Education (CCPE) summarized our state's workforce challenges when they said: *"Nebraska is a geographically large state with a widely dispersed population. Minority populations are the only segment of the population projected to show any long-term growth, and that growth will be gradual compared to the rest of the nation. Nebraska's working-age population is projected to grow by only 3 percent between 2010 and 2030. The only significant population growth is expected to occur in the thirteen metropolitan counties located primarily in the southeastern quarter of the state. These demographic projections, combined with Nebraska's traditionally low unemployment rates, its aging population, and its relative lack of net in-migration, will exacerbate existing workforce shortages and threaten the state's future economic growth*." [7]

CCPE, along with the Nebraska Department of Education (NDE) and administrators from high schools and higher education institutions across the state, briefed the Task Force on existing programs aimed at increasing the workforce readiness of young Nebraskans by providing training and educational opportunities. NDE outlined its ReVISION program, which supports efforts to most effectively prepare students for college and careers in their own communities. ReVISION provides grants and technical assistance, which are used by Nebraska schools to help them analyze their existing career education curricula and adjust programs. ReVISION is explicitly designed to consider workforce needs and emerging opportunities in Nebraska, so that school career education programs can engage both students and employers in the changing economic landscape.[8]

Dr. Tawana Grover, Superintendent of Grand Island Public Schools (GIPS), explained the ways in which GIPS is pursuing innovative career training models. She discussed her district's focus on initiating age-appropriate career education as early as elementary school, and the role of focused after-school and summer programs in student achievement. She also highlighted the GIPS pilot Career Academy, an alternative-track high school focused on in-depth vocational training that aligns with the skills and interests students already possess. The Career Academy has partnered with local businesses and professionals since the design stage, with the goal of preparing students for an immediate career or 2- to 4-year degree from the moment they graduate high school. The Academy also offers a youth apprenticeship program.

Commissioner of Labor John Albin stressed that further opportunities exist for giving 16- to 17-year old students site-based learning experiences in manufacturing. As an example, he discussed working with an employer in Beatrice to clarify the opportunities for work-based learning that exist in federal law, and stressed that other employers could implement those kinds of programs as well.

The Department of Labor and Department of Economic Development also work together on business-led sector partnerships in various regions in the state, with the goal of strengthening workforce development in alignment with business needs. Three of the regions are focused on manufacturing discussions, while three other regions have stressed information technology and healthcare workforce needs.

Although these programs are making progress, further action is needed to produce skilled workers in high-demand technical fields. CCPE recommends a higher education strategy that diversifies available state tuition assistance programs and grants. Such grants leverage federal dollars in order to maximize the resources available to students pursuing specific fields.[9] The programs require students to apply for all available federal resources first, and then fill in gaps with support from state sources. CCPE argues that such grants encourage Nebraskans to invest in higher education and stay in the state. Any new programs could require a commitment to stay in the state for a certain number of years. However, even without a set commitment, these programs create connections and ties to Nebraska because the state has visibly helped the student to further their education. Creating programs that leverage federal resources to attract and retain Nebraskans and make value-added educational gains should be considered as resources permit.

This strategy could also be tailored to reach the 290,000 Nebraskans who have some college but have not completed a degree program.[10] Developing the workforce that Nebraska needs will require going beyond the K-12 pipeline to reach out to the adult population, including “some college” adults. Strengthening the credentials of these workers will be an important part of building a stronger workforce for the state.

Successful workforce development strategies should also consider how to offer more cutting-edge postsecondary certificate and degree programs, how to provide lifelong learning and retraining opportunities to Nebraskans, and how to extend training opportunities to communities that are underrepresented in the workforce. The Task Force also discussed the importance of reducing barriers that keep people from entering the workforce because of past criminal convictions or substance abuse.

Priority 3) Improving Economic Development Programs

A Nebraska Department of Revenue analysis of the state’s largest business tax incentive program, the Nebraska Advantage Act, found that lost tax revenues have exceeded gains from the additional economic activity and will continue to do so through 2025. This net cost to the state was $50.7 million in 2017, and the annual cost is expected to grow to an estimated $81.8 million by 2025. The cumulative cost of the Advantage Act is projected to be just under $500 million by 2020.[11]

In order to better understand the current impact of these incentive investments, the Task Force heard from a panel of businesses currently utilizing Nebraska business tax incentives. Although the panelists ranged from a Nebraska startup to a global company that expanded its operations in the state, they agreed that business tax incentives were critical to their decision to build and remain in Nebraska. Presentations from the Legislative Performance Audit Office[12] and The Pew Charitable Trusts,[13] however, encouraged the Task Force to think critically about the definitions, goals, and benchmarks of state incentive programs to ensure that the intended state outcomes are clear and are being met. Whether the goals are to bring in new businesses to the state or attract jobs that offer wages above the statewide industry average, defining the intentions of these programs is needed if the proper metrics and benchmarks are to be set, and long term strategies to maximize the benefits of these incentives implemented.

Jeff Chapman, Director of Economic Development and State Fiscal Health for Pew, urged the Task Force to consider where companies that are receiving incentives are selling their goods. If a new company receiving an incentive sells the majority of its products in Nebraska, the likelihood of a net increase in jobs and revenue is minimal since growth in sales and jobs from this new business will displace sales from existing businesses. Recruiting companies that export to diverse markets outside the state allows for increased tax revenue and more jobs without detracting from the success of other businesses in the state. Another consideration from Pew is whether the recipient firm pays a wage premium. Recruiting positions that pay at or below the industry standard can stifle development in surrounding communities. The analysis that Pew compiled for the Task Force also includes policy considerations to strengthen budget protections that can be incorporated into incentive policies to increase cost predictability and reduce budget risks.

A copy of the Pew analysis can be found in the appendix. Rethinking definitions, benchmarks, and characteristics of recipient firms could be an effective way to maximize benefits from these business tax incentives.[14] Increasing wage requirements for incentive programs fits the recommendations of Pew's reports as well as the recommendations of SRI's report to the state.[15]

The Task Force concluded that the Nebraska Advantage Act must be reformed or replaced before its 2020 sunset with an incentive program that includes reforms such as: increasing wage requirements; simplifying qualification standards; clarifying benchmarks for evaluation; controlling future costs; and increasing budget predictability.

The Task Force also discussed Tax Increment Financing (TIF), focusing on the opportunities and challenges of using that tool. A panel discussion with City of Lincoln Director of Urban Development Dave Landis, OpenSky Policy Institute Director Renee Fry, and Plattsmouth City Administrator Erv Portis addressed a number of issues including transparency and evaluating return on investment.

Dr. Eric Thompson, Director of the UNL Bureau of Business Research, reviewed the Nebraska Business Innovation Act (NBI) to determine how successful NBI has been in achieving its goal: to attract and retain innovative businesses to the state. Dr.

Thompson analyzed NBI's five primary programs and determined that for every $1 of direct state spending, $6.72 of capital was raised; that same dollar also resulted in $7.21 in revenue. He also estimated that 967 jobs have been created as a result of NBI programs.[16] His study found that NBI's programs do have a measurable positive impact, and that Nebraska businesses have been successful in leveraging state support to create economic growth.

The Nebraska Department of Economic Development and the University of Nebraska-Lincoln spoke to the Task Force about supporting innovation and entrepreneurship. DED concluded from a second SRI International report that Nebraska's innovation climate has improved in the last decade, but still has room to develop. The report specifically noted that limited risk capital, narrow market access for entrepreneurial products, and a small pool of experienced entrepreneurs are all challenges Nebraska faces.[17] Steps could be considered to address these shortcomings and enhance our state's "startup climate."

Among the issues discussed multiple times by the Task Force was the recognition that most businesses creating jobs in Nebraska do not use incentives. From those conversations, there was a sense among Task Force members that the Task Force needs to keep in mind a broad picture, including tax policies, infrastructure, and education policies, plus factors like child care, housing, and elder care. There was also discussion of the need to market the state's strengths and to recognize the importance of investing in people as a key economic development strategy.

* * *

Next Steps

The Task Force will continue to examine research on economic development policies, workforce development policies, and population growth. The goal is to foster conversations to seek effective economic development policy strategies and priorities. In 2018 the Task Force will begin traveling to communities across to state to visit with entrepreneurs, students, families, and workers as part of our work to develop priorities and proposals. The Task Force will make it a priority to hear from a representative sample of Nebraska's various sectors and industries throughout the diverse geographic regions of the state.

Given the critical priority of attracting more people to the state, future work of the Task Force will leverage research on why people leave and what attracts people back to states like Nebraska. This includes reviewing existing studies and working with stakeholders on new research. The Task Force will work to determine how to best use these results to shape state policy and community efforts to build population and expand the workforce.

Next interim, the Economic Development Task Force will also prioritize work with the Revenue Committee, partner agencies, and stakeholders to develop a bill or bills for 2019 to reform or replace the existing Advantage Act structure.

Endnotes

1. Nebraska Department of Labor. (2017, Dec 22). *Labor Force Summary.* Retrieved from https://www.dol.nebraska.gov/InfoLink
2. This data is available for regions across the state. Those interested in learning more about how to use the data for recruiting should contact the Department of Labor.
3. Nebraska Department of Economic Development. (2017). *Intern Nebraska.* Retrieved from http://www.neded.org/program/intern-nebraska/
4. SRI International. (2016). *Nebraska's next economy: Analysis and recommendations.* Retrieved from http://opportunity.nebraska.gov/files/govsummit/Nebraskas_Next_Economy_Analysis_and_Recommendations_web.pdf
5. Schroeder, C. (2017, July 14). *Examining the intersections of economic development and education.* Document presented to the Nebraska Legislature's Economic Development Task Force, Lincoln NE.
6. Americans for the Arts. (2017). *The economic impact of nonprofit arts and cultural organizations and their audiences in the city of Lincoln, NE.* Retrieved from https://www.americansforthearts.org/sites/default/files/pdf/2017/by_program/reports_and_data/aep5/map/NE_CityOfLincoln_AEP5_OnePageSummary.pdf
7. Nebraska's Coordinating Commission for Postsecondary Education. (2016). *Comprehensive statewide plan for postsecondary education*. Retrieved from https://ccpe.nebraska.gov/sites/ccpe.nebraska.gov/files/doc/CompPlan.pdf
8. Katt, R. (2017, Sept 15). *reVISION: Establishing a clear vision for Nebraska career education.* PowerPoint presented to the Nebraska Legislature's Economic Development Task Force, Lincoln NE.
9. Nebraska's Coordinating Commission for Postsecondary Education. (2016). *Comprehensive statewide plan for postsecondary education*. Retrieved from https://ccpe.nebraska.gov/sites/ccpe.nebraska.gov/files/doc/CompPlan.pdf
10. The American Community Survey. (2015). *Educational Attainment.* Retrieved from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF
11. Nebraska Department of Revenue. (2017). *Nebraska tax incentives: 2016 annual report to the Nebraska Legislature.* Retrieved from http://www.revenue.nebraska.gov/incentiv/annrep/16an_rep/16_annrp.html
12. Legislative Performance Audit Committee. (2016). *Nebraska Advantage Act performance on selected measures*. Retreived from http://nebraskalegislature.gov/pdf/reports/audit/naa_2016.pdf
13. Chapman, J. (2017, Aug 11). *Key factors that determine the effectiveness of state tax incentives for jobs and growth.* PowerPoint presented to the Nebraska Legislature's Economic Development Task Force, Lincoln NE.
14. The Pew Charitable Trusts. (2017). *How states are improving tax incentives for jobs and growth.* Retrieved from http://www.pewtrusts.org/~/media/assets/2017/05/edti_how_states_are_improving_tax_incentives_for_jobs_and_growth.pdf
15. SRI International. (2016). *Nebraska's next economy: Analysis and recommendations.* Retrieved from http://opportunity.nebraska.gov/files/govsummit/Nebraskas_Next_Economy_Analysis_and_Recommendations_web.pdf
16. Thompson, E. (2017). *The annual economic impact of businesses supported by Nebraska Business Innovation Act Programs: 2016 update.* Bureau of Business Research, University of Nebraska-Lincoln.
17. SRI International. (2016). *Supporting innovation-led growth in Nebraska.* Retrieved from http://govdocs.nebraska.gov/epubs/E1000/B083-2016.pdf

Appendix: Analysis from The Pew Charitable Trusts

Memo

To: Nebraska Economic Development Task Force

From: Jeff Chapman and Josh Goodman, The Pew Charitable Trusts

Date: November 17, 2017

Subject: Tax incentive best practices

Thank you for your interest in improving the Nebraska Advantage Act and other Nebraska tax incentives. In response to your invitation for Pew to provide assistance, below we offer research on three topics:

- Guidelines to help design effective tax incentives, according to leading researchers.
- Protections to ensure incentives do not cost more than intended.
- How states have designed "discretionary" incentive programs, including ones that use competitions to determine which companies are awarded incentives.

Guidelines for designing effective tax incentives

Whether or not economic development incentives achieve their goals cost-effectively depends on many factors, including the design of the incentives, which companies benefit, how the programs are administered, and underlying economic conditions. Despite the complexity, leading economic researchers have identified some general principles that can help policy makers create more successful incentive programs. These include:

- **Prioritizing high-impact businesses.** "Multipliers" are estimates of the extent to which one change in the economy—such as the decision to provide a business with incentives—will ripple into the broader economy. Incentive programs that target their benefits to high-multiplier businesses generally have a greater impact. For example, all else being equal, assisting businesses that pay higher wages will have higher multipliers than helping low-wage businesses because workers at high-wage businesses will have more money to spend in the local economy. Likewise, providing incentives to businesses with networks of local suppliers will lead to higher multipliers because the dollars they spend on goods and services from the suppliers will recirculate in the local economy, rather than quickly leaving the state.
- **Avoiding negative effects on other local businesses.** States often target incentives to businesses that sell their goods nationally and internationally such as manufacturers. They typically avoid providing incentives to businesses that primarily serve a local market, such as retailers and restaurants. These businesses compete for customers with other local businesses,

so helping one business expand will generally result in job losses elsewhere in the local economy.

- **Including high-value services**. If policymakers can find ways to encourage hiring and investment decisions by providing services that are worth more to businesses than they cost the state, they will be more likely to achieve a strong return on the state's investment. For example, customized job-training programs can ensure access to a qualified workforce and manufacturing extension services can help businesses improve their production processes.
- **Targeting incentives based on economic conditions.** The effectiveness of incentive programs depends to some extent on the condition of the local economy. For example, when tax incentives target areas with low unemployment, many of the jobs that are created will go to people who migrate in from out of state. Since state and local governments will have to provide services to these new residents and their families, the return on the state's investment will be lower. On the other hand, using tax incentives to encourage economic development in regions with persistently high unemployment will target benefits more effectively to local residents.

Cost protections

Nebraska is one of many states around the country—including Louisiana, Ohio, Oklahoma, Michigan, New Mexico, New York, and others—that has seen the cost of specific tax incentive programs increasing quickly and unexpectedly. When that happens, lawmakers are often forced to make difficult choices between raising taxes and cutting spending in other areas to make up the difference. These problems are not inevitable, however. Many states have proven that they can design incentives to achieve their economic development goals while offering greater protection to the state budget.

In 2015, Pew published a report[1] titled, "Reducing Budget Risks," that identified options for designing incentives in in ways that reduce fiscal risk. Specifically, states can:

- Cap how much programs can cost each year.
- Control the timing of incentive redemptions.
- Require lawmakers to pay for incentives through budget appropriations.
- Restrict the ability of companies to redeem more in credits than they owe in taxes.
- Link incentives to company performance.
- Require businesses to provide advance notice of program participation.

Designing incentives with every one of these protections is not necessary to avoid budget challenges. Instead, the key is to design incentives with a sufficient combination of protections to achieve two goals: ensuring that the costs of the incentives are reasonably predictable from year-to-year and ensuring that the long-term costs of the programs do not become unaffordable. In their 2016 evaluation,[2] the Legislative Audit Office assessed whether the Nebraska Advantage Act includes the protections identified in Reducing Budget Risks (see pg. 49-51).

[1] http://www.pewtrusts.org/~/media/assets/2015/11/cost-predictability_artfinal.pdf
[2] https://nebraskalegislature.gov/pdf/reports/audit/naa_2016.pdf

The evaluation noted that while the Advantage Act includes some of the protections (such as following a performance-based model), overall “it does not have the types of protections that would prevent the program from increasing substantially beyond the state’s expectations.” Other states have had success implementing the protections the Advantage Act currently lacks, including:

- **Caps.** Iowa installed an aggregate limit across many economic development tax credits in 2009. This cap provides flexibility to both economic development officials and legislators. Officials have discretion to spend more or less on specific programs from year to year, so long as they abide by the aggregate limit. Lawmakers can adjust the cap from year to year depending on their priorities and the state’s budget situation, in the same way that they can adjust spending levels in other policy areas such as education or transportation. Iowa legislators lowered the cap for fiscal 2011 when the economic downturn was straining the state’s budget, then raised it for fiscal 2013.
- **Controlling the timing of redemptions.** Projects that receive tax credits for rehabilitating historic properties in Maine are required to redeem the credits in equal installments over four years, starting the first year the property is put into service. By tracking how many projects they have approved and when recipients are scheduled to redeem their incentives, state officials can accurately forecast the cost of incentive programs on an annual basis.
- **Appropriated incentives.** In Florida’s budget each year, lawmakers set how much money will be available for several of the state’s programs, including cash and tax incentives. As a result, lawmakers are in control of how much money is dedicated to the programs, just like in any other area of government spending. This approach has also encouraged policymakers to scrutinize the incentive programs in more depth, with the governor and legislators debating the right level of funding for the programs and how their effectiveness can be improved.

Designing discretionary incentive programs

The Advantage Act functions as an entitlement: By law, the Department of Revenue approves any application to participate in the program that meets the standards written into statute. This isn’t the only model for designing incentive programs, however. Around the country, many incentive programs afford state officials varying degrees of discretion to select which companies are awarded incentives. Since some Nebraska lawmakers have expressed interest in exploring a discretionary model for the Advantage Act, this section describes the decisions that would need to be made to do so.

There are advantages and disadvantages to either an entitlement or discretionary approach. For discretionary programs to succeed, states must design an effective process for determining which companies should receive benefits. In this sense, entitlement programs are potentially simpler to administer. However, discretionary programs enable the state to target businesses that will provide the state with the strongest return on investment.

States have also generally had an easier time ensuring that discretionary programs do not cause budget challenges. Since companies must apply in advance, state officials have an opportunity to collect data that will help them anticipate the costs at the same time that they determine which businesses are eligible. They can also install programmatic caps on the incentives that will be approved.

Below we highlight some of the choices involved in designing discretionary programs to illustrate the range of options available.

How are applications accepted?

Some discretionary programs, such as Florida's Quick Action Closing Fund, accept applications year-round. Under the Quick Action Closing Fund, the state is required by statute to approve or disapprove the applications within 10 days.

Other programs have a specific annual application window. For example, businesses could only apply for the Massachusetts Life Sciences Tax Credit from January 5 to February 16 this year. By seeing all applications side-by-side, state officials may have an easier time determining which companies are most promising or will provide the greatest return on the state's investment. The potential trade-off is that the timing of the application window may not mesh well with businesses' plans—a company that is seeking to expand may not want to wait for the next application window.

To help deal with this issue, California stages multiple competitions every year for its California Competes Tax Credit. Each competition has a separate cap on the value of tax credits awarded to ensure the program does not cost more than intended.

What criteria are used to determine which businesses receive incentives?

Even programs that provide state officials with a degree of discretion generally also set parameters for which businesses will be accepted. These parameters often lay out the types of businesses that are eligible, the performance standards businesses must meet to receive incentives, and other criteria for state officials to consider when making incentive award decisions.

For example, the statute[3] for Minnesota's Job Creation Fund lists categories of businesses that are eligible for the credit such as manufacturers and ones that are not eligible such as political consultants. To be eligible, businesses must also commit to meeting specific job creation and investment thresholds. The statute also lays out more subjective criteria for officials to consider as they make award decisions—factors such as "how the business will build on existing regional, national, and international strengths to diversify the state's economy" and "the effect of financial assistance on industry competitors in Minnesota."

All businesses are eligible to apply for the California Competes Tax Credit, but the state uses a two-step to determine which applications to approve. First, the state conducts a quantitative

[3] https://www.revisor.mn.gov/statutes/?id=116J.8748

analysis of businesses' proposals. To do so, businesses submit proposals laying out their plans for hiring and investment and the size of the credit they are requesting. Using a set formula, economic development officials score these proposals. Businesses that propose larger investments and greater hiring in exchange for smaller tax credits score better. Top-scoring businesses then advance to the second phase of the process. In the second phase, economic development officials consider qualitative factors similar to those used in Minnesota (in addition to quantitative factors) such as "the strategic importance of the business to the state, region, or locality."

Who makes incentive award decisions?

While economic development agencies typically administer discretionary incentive programs, these officials often do not have ultimately authority to determine which businesses are awarded incentives. Instead, economic development officials may make a recommendation to a board that votes on the proposed awards.

For example, in North Carolina the Economic Investment Committee evaluates applications under the state's Job Development Investment Grant. The committee consists of the Secretary of Commerce, the Secretary of Revenue, the State Budget Director, and one appointee by each house of the legislature. Including budget officials and legislative representatives on the committee may help ensure that the state's financial position is taken into account in award decisions, making it less likely incentives will cost more than expected or intended.

In some instances, states rely on technical experts to help make these kinds of decisions. For example, the board of directors of the Massachusetts Life Sciences Center approves awards of the state's life sciences tax credit. By law,[4] the board includes a mix of state officials and life science experts who are appointed by the governor such as "a researcher involved in the commercialization of biotechnology, pharmaceuticals or medical diagnostic products."

[4] https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter23I/Section3