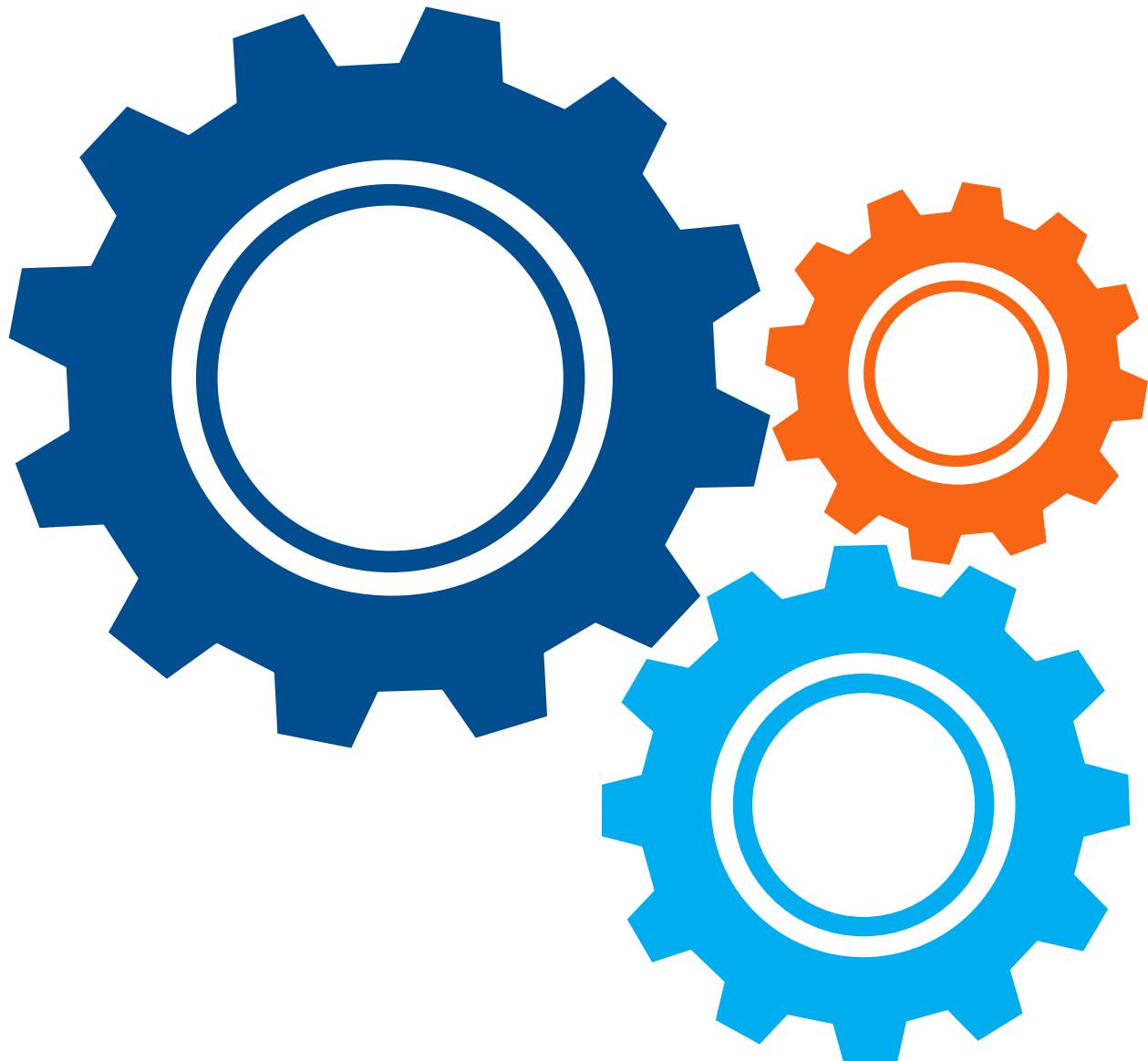


STATE OF STATE BUSINESS
INCENTIVES
2015



C2ER
COUNCIL FOR COMMUNITY
& ECONOMIC RESEARCH

STATE OF STATE BUSINESS INCENTIVES REPORT

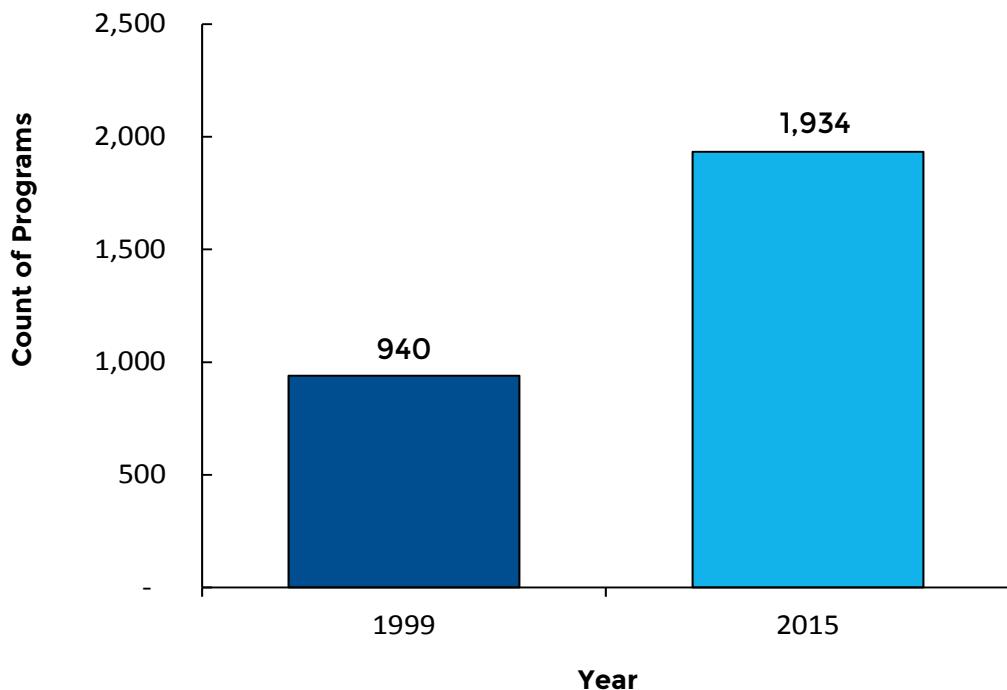
2015

The Council for Community and Economic Research (C2ER) recently completed its annual update of the C2ER State Business Incentives Database. The Database is a national inventory of state business incentive programs with almost 2,000 programs from all U.S. states and territories. The Database functions as both a reference guide for currently active programs and a tool for cross-state comparisons of incentive program portfolios.¹

As part of the regular database review process, C2ER researched every U.S. state and territory to ascertain information on what programs have been created, repealed or altered during each state's most recent legislative sessions. Based on this research, combined with extensive outreach to representatives in every state and territory, the Database now reflects the present status of the more than 1,900 state business incentives in operation around the country.

1. A more detailed description of the C2ER State Business Incentives Database is provided at the end of the report.

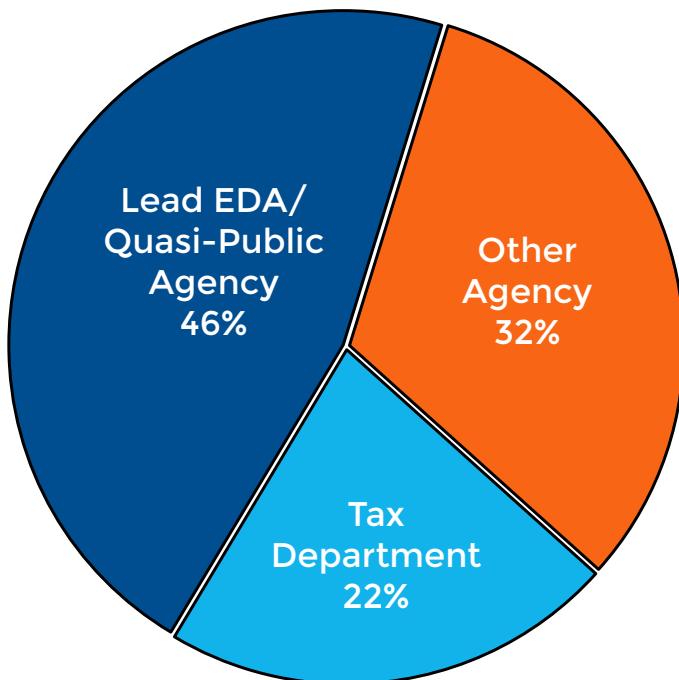
Figure 1: Total Number of State Business Incentive Programs (1999-2015)



This report summarizes the findings from this review. Most striking is the overall growth in the number of state business incentive programs. Since the new millennium, the overall number of state incentive programs targeted to businesses has more than doubled, from less than one thousand in 1999 to nearly two thousand today. (See Figure 1.)

In the sections that follow, the report takes a closer look at the different types and purposes of business incentive programs administered by states. The report then examines how state incentive portfolios have changed over the past few years in response to recent economic trends, with some notable examples of recent state incentive activity.

Figure 2: State Lead Economic Development Agencies, 2015



Current State of State Business Incentives

The C2ER State Business Incentives Database includes state business incentives administered by a broad range of state and non-state agencies. Program administrators set program guidelines, market programs, determine businesses eligibility and the level of support available, and assess whether businesses have met their contractual performance obligations. Around half (46%) of incentive programs in the Database are administered by the state's lead economic development agency, while almost a quarter are administered by the state tax department (See Figure 2.) The remaining third are administered by other state agencies, private or quasi-public partners, or public partners at the local or regional level. Responsibilities for funding, administering, and marketing incentives are often shared between multiple agencies.²

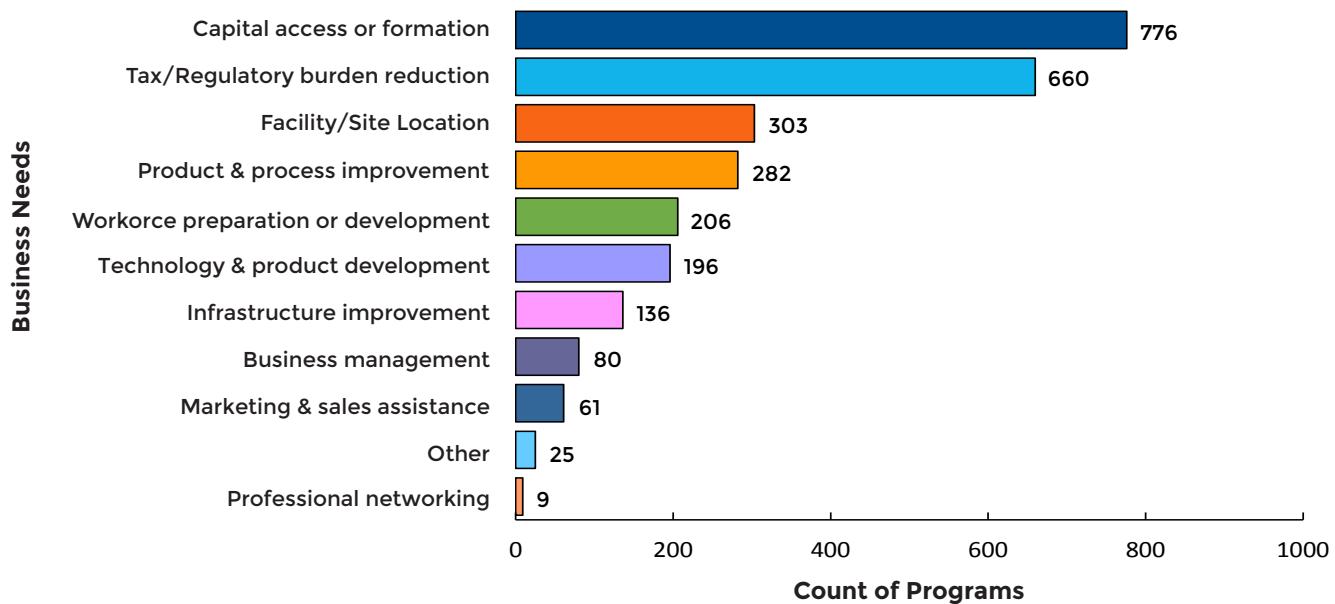
The purpose of these incentive programs is to further the state's economy through helping fulfill the various needs of businesses in the state. By doing so, states help develop their current businesses, improve their general business climate and infrastructure, and retain and attract new businesses to the state. As shown in (Figure 3.) over half of currently active programs seek to fulfill the policy goals tied to helping businesses access or form capital, or reducing businesses' state tax burden.³ States also use incentives to help businesses train their workforce, locate and develop sites, build infrastructure necessary to their operations, research and develop new products and production processes, and improve their business management and marketing. States use a variety of both tax and non-tax incentive tools for these purposes, with some programs offering multiple types of benefits.⁴

2. For this research, "lead economic development agency" is defined as the state agency that primarily processes, administers, and/or publicizes a state's incentive programs.

3. Note: For all graphs in the report, programs may appear more than once if they provide benefits across multiple Database categories.

4. "Tax programs" are programs that provide businesses with various tax incentives, including abatements, credits, refunds, and deferrals. "Non-tax programs" provide dollars or technical assistance to a business or group of businesses either directly or indirectly. Some programs provide both tax and non-tax benefits.

Figure 3: State Incentives by Business Need, 2015



As shown in (Figure 4.), tax credit, grant, loan, and tax exemptions made up the large majority of business incentives in 2015. States use these incentives to fulfill business needs, but oftentimes they are used in more targeted ways to benefit businesses according to characteristics like size, age, ownership, location, and industry sector.

Figure 4: State Incentives by Program Type, 2015

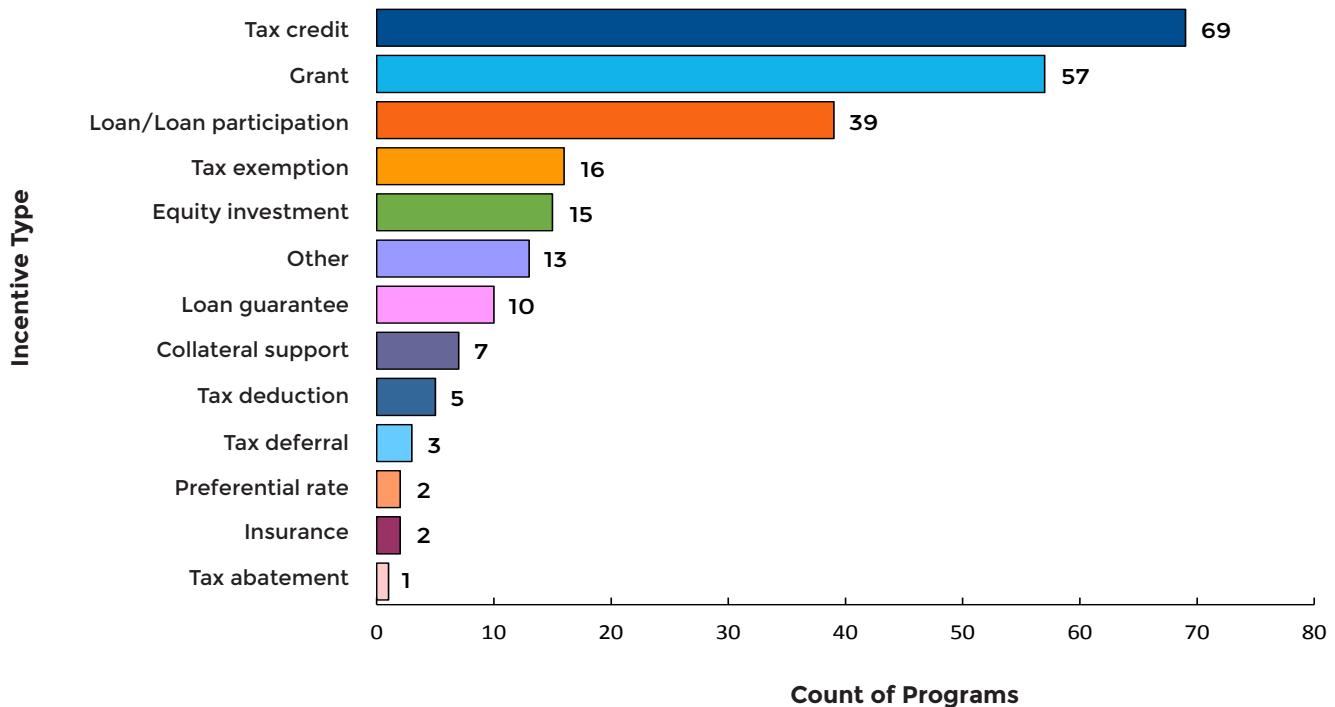


Figure 5: State Incentives by Industry, 2015

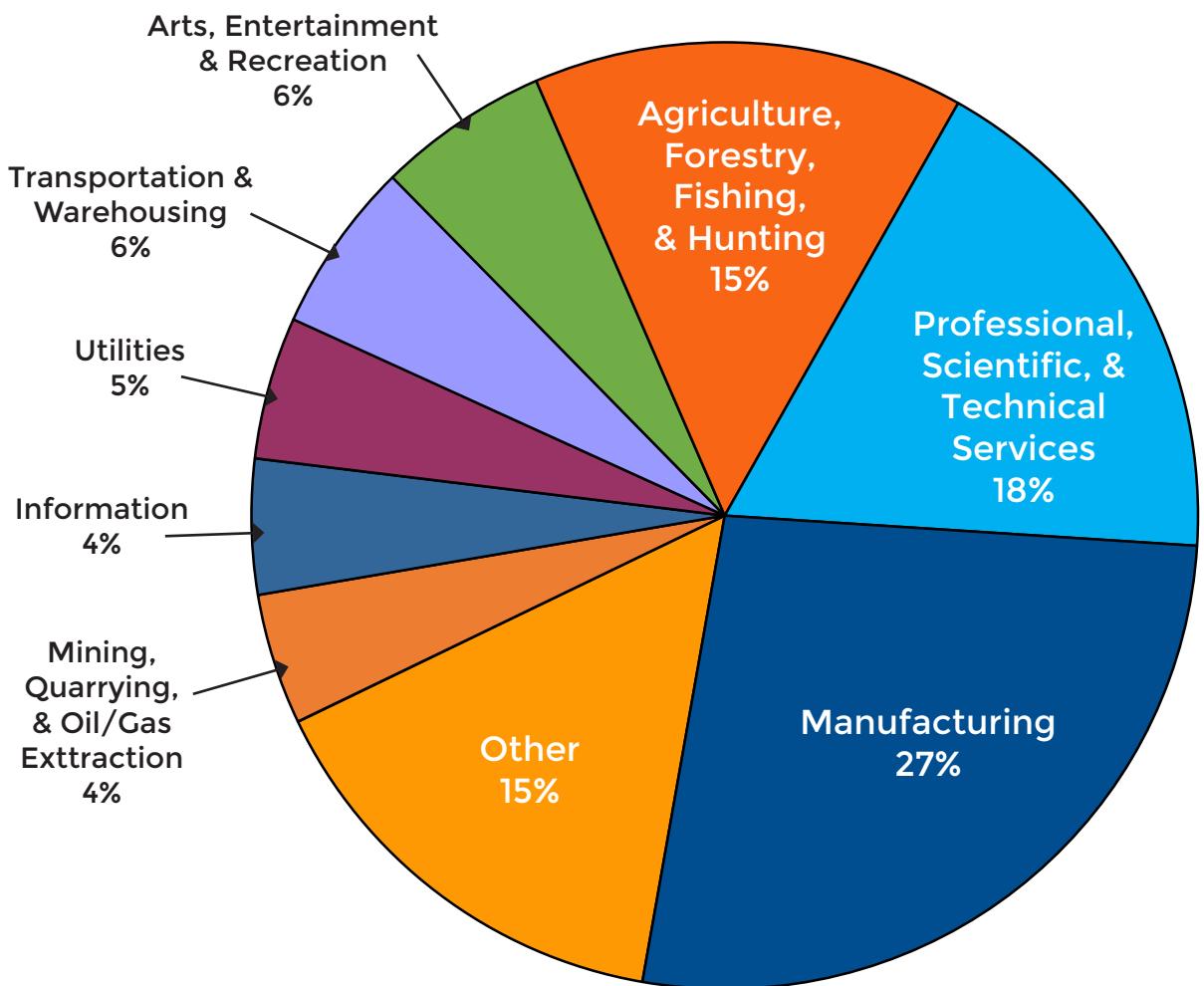


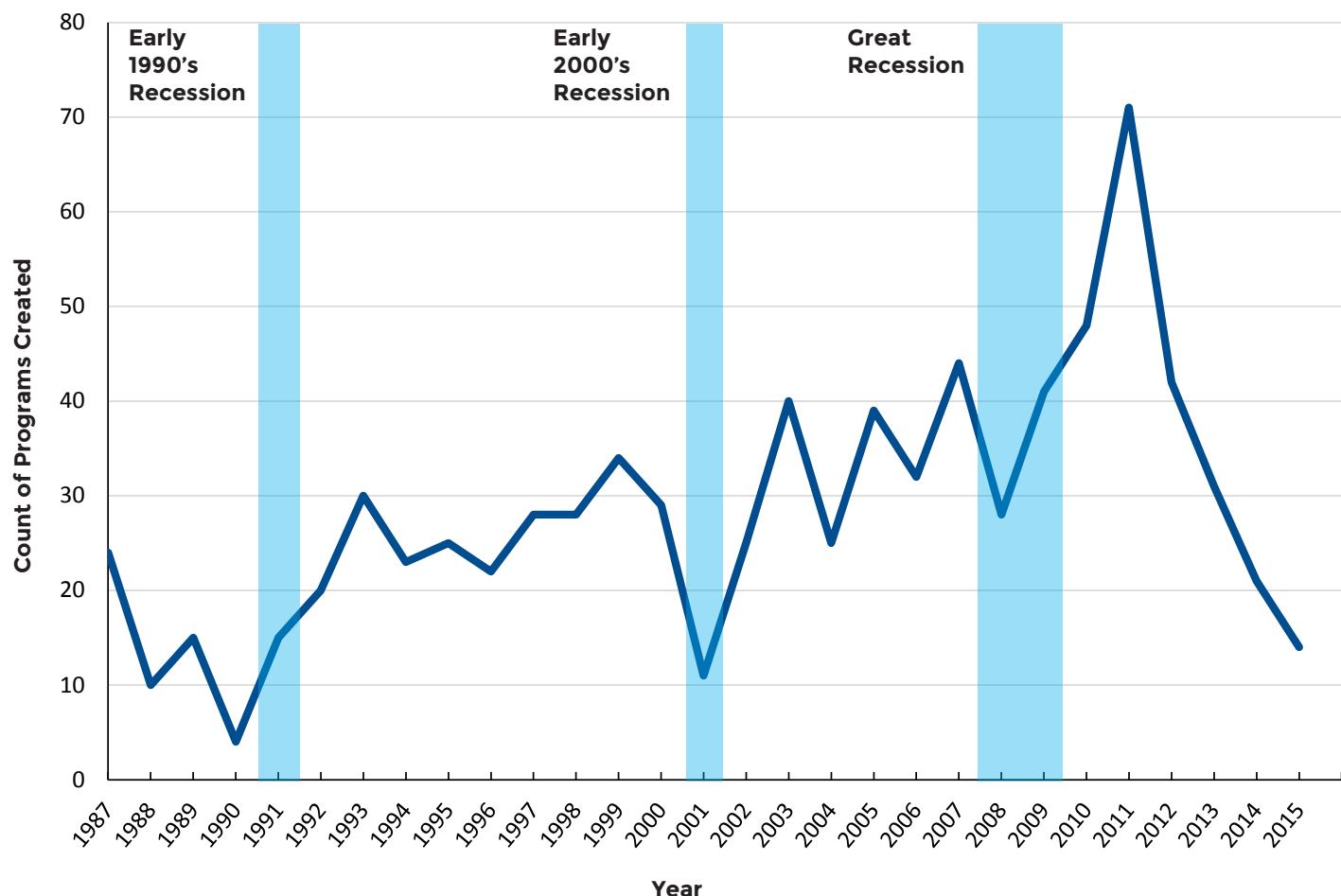
Figure 5 portrays the industry sectors targeted by incentives in 2015, with the most commonly targeted industry sectors being manufacturing, professional and scientific services, and agriculture.

Recent Trends in Incentive Creation

A broad range of economic and political factors impact states' motivations for creating new incentive programs. As shown in Figure 6, there is a general correlation that suggests states create more business incentive programs in response to national recessions. However, the lag in the legislative cycle means that these programs are not always in place until the nation has entered the economic recovery period.

States are also likely to create new incentive programs following major state elections, especially after major political shifts. Following the "Great Recession" of 2007-2009 and the state elections of 2010 (which brought twenty-seven new governors to power), states enacted almost 100 net new incentive programs in 2011. After this large surge in activity, program creation steadily declined, with states creating a combined total of 123 net new incentive programs over the following four years.

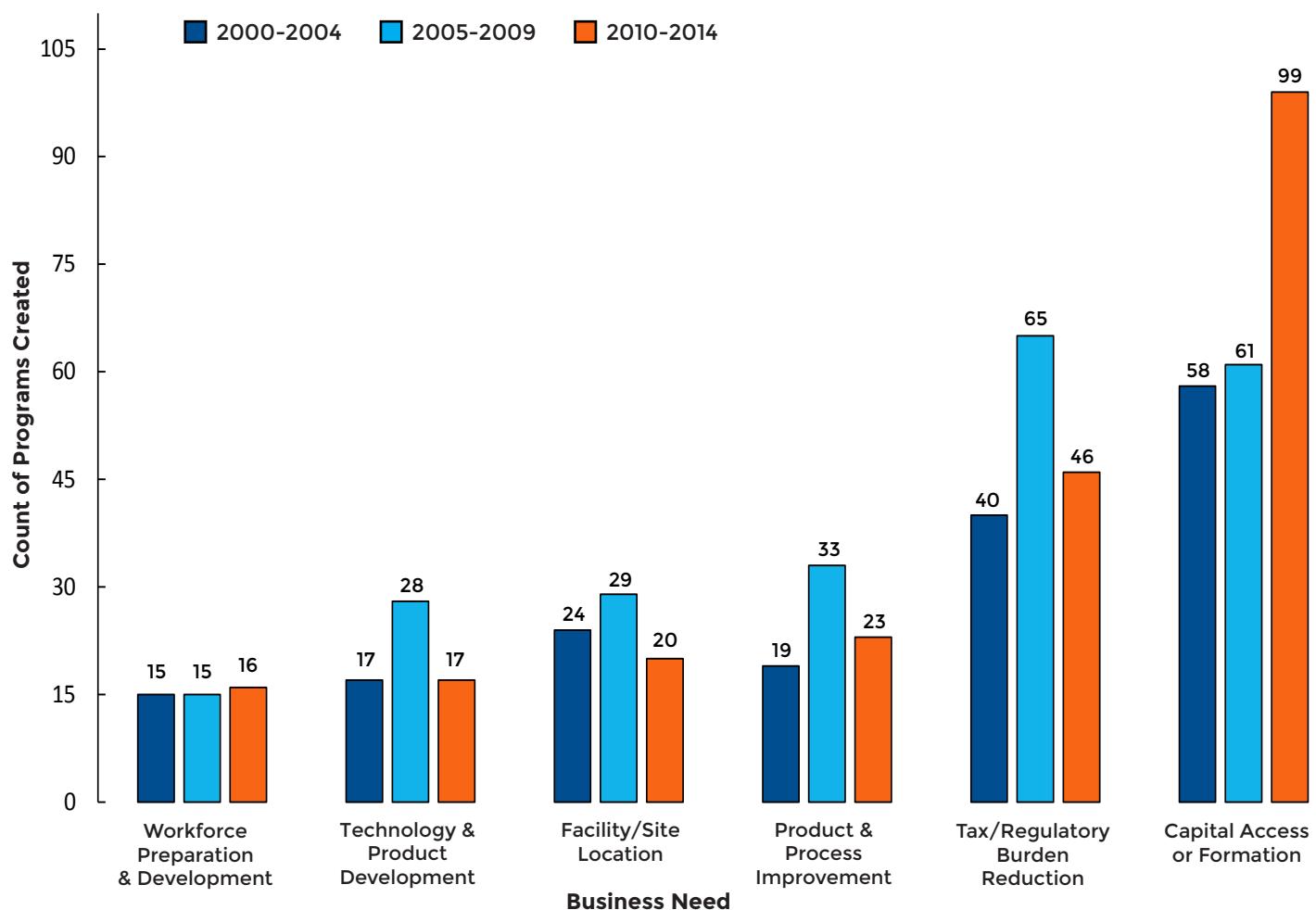
Figure 6: Number of Programs Created, 1987-2015



The incentive programs created following the worst years of the Great Recession addressed somewhat different business needs than those enacted in prior years. A large portion of new programs created over the past few years have been for capital access programs, largely as a result of the inception of the U.S. Department of Treasury's State Small Business Credit Initiative (SSBCI). Enacted as a response to the tightening of credit available to small businesses following the Recession, the program allocates federal funding to states for deployment through a variety of vehicles, including loan participation, collateral support, capital access, loan guarantee and venture capital programs.

Typically, the Database excludes federal programs, however, we made an exception for SSBCI-funded programs because state policymakers actually made the decision to create unique programs in each state. The federal funds are set to be turned over to the states in 2017 and many states intend to continue these programs with available funds. Since 2011, states have created 82 new SSBCI programs.

Figure 7: Trends in Program Creation, by Business Need (2000-2014)



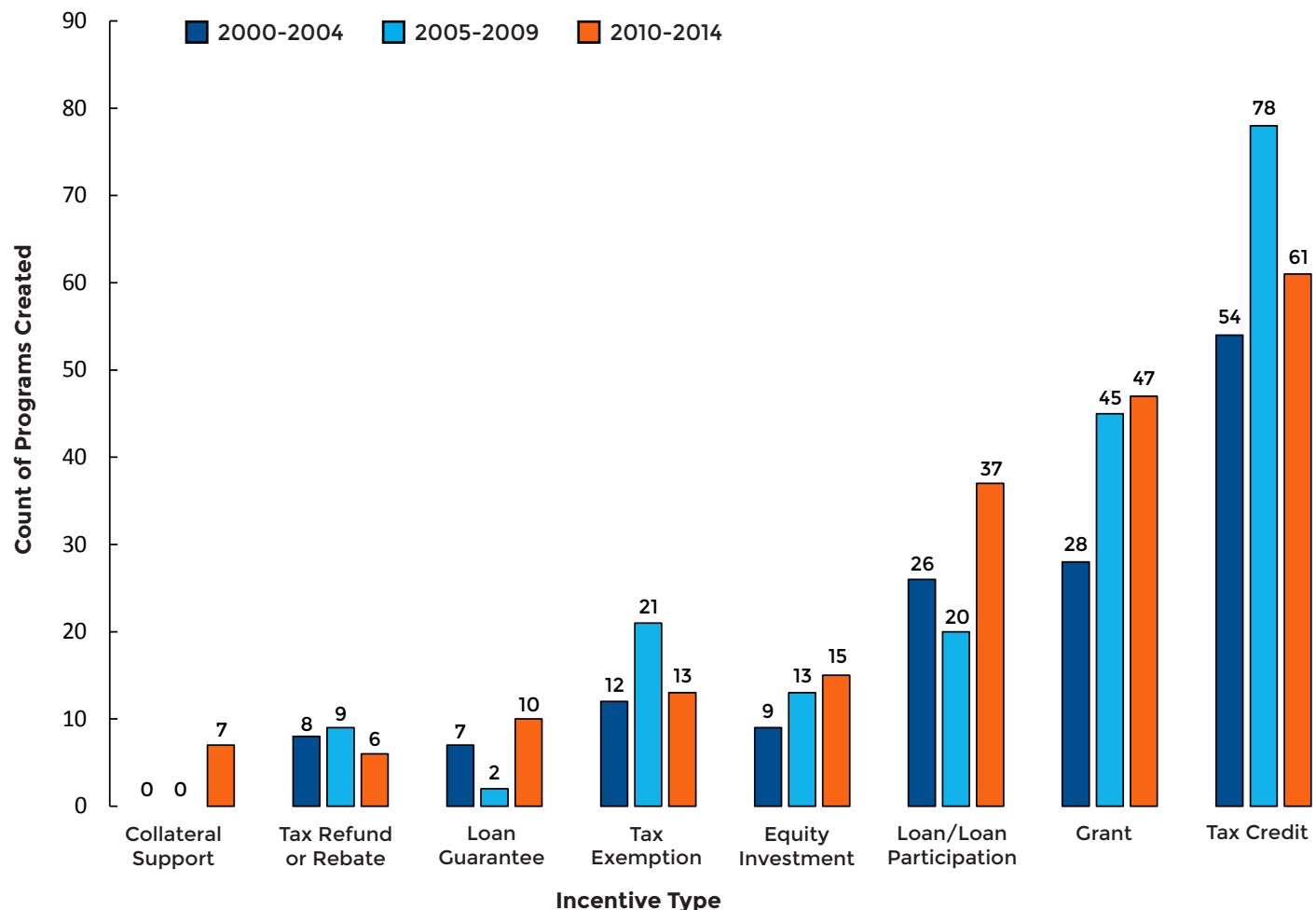
As shown in Figure 7, after a large spike in tax burden reduction program creation in the previous decade, the number of capital access programs increased substantially during the period between 2010 and 2014. The shift towards grant and loan programs is also due to other trends in the economic development arena, including the growing concerns about the effectiveness of tax credits in driving economic development⁵, and greater demands for transparency around the “costs” associated with state tax expenditures.⁶ The Recession had a large impact on the types of incentives enacted during this period, with many states choosing to create new

programs targeted to achieving more narrow economic policy goals. Facing high unemployment rates and dwindling state tax revenue, most states placed a very large emphasis on job creation and retaining and attracting businesses during the recovery period. Despite the trend toward more direct business financing, several states created “jobs tax credits” incentives directly tied to reducing taxes for employers that retained or created jobs. (See Figure 8).

5. Van Parys, Stefan and James, Sebastian. Why Tax Incentives May be an Ineffective Tool to Encouraging Investment? – The Role of Investment Climate (December 1, 2009). Available at SSRN: <http://ssrn.com/abstract=1568296>

6. Institute on Taxation and Economic Policy. Tax Incentives: Costly for States, Drag on the Nation (August 14, 2013). Available at: http://itep.org/itep_reports/2013/08/tax-incentives-costly-for-states-drag-on-the-nation.php#.Vg0InZfG91B

Figure 8: Trends in Program Creation, by Type (2000-2014)

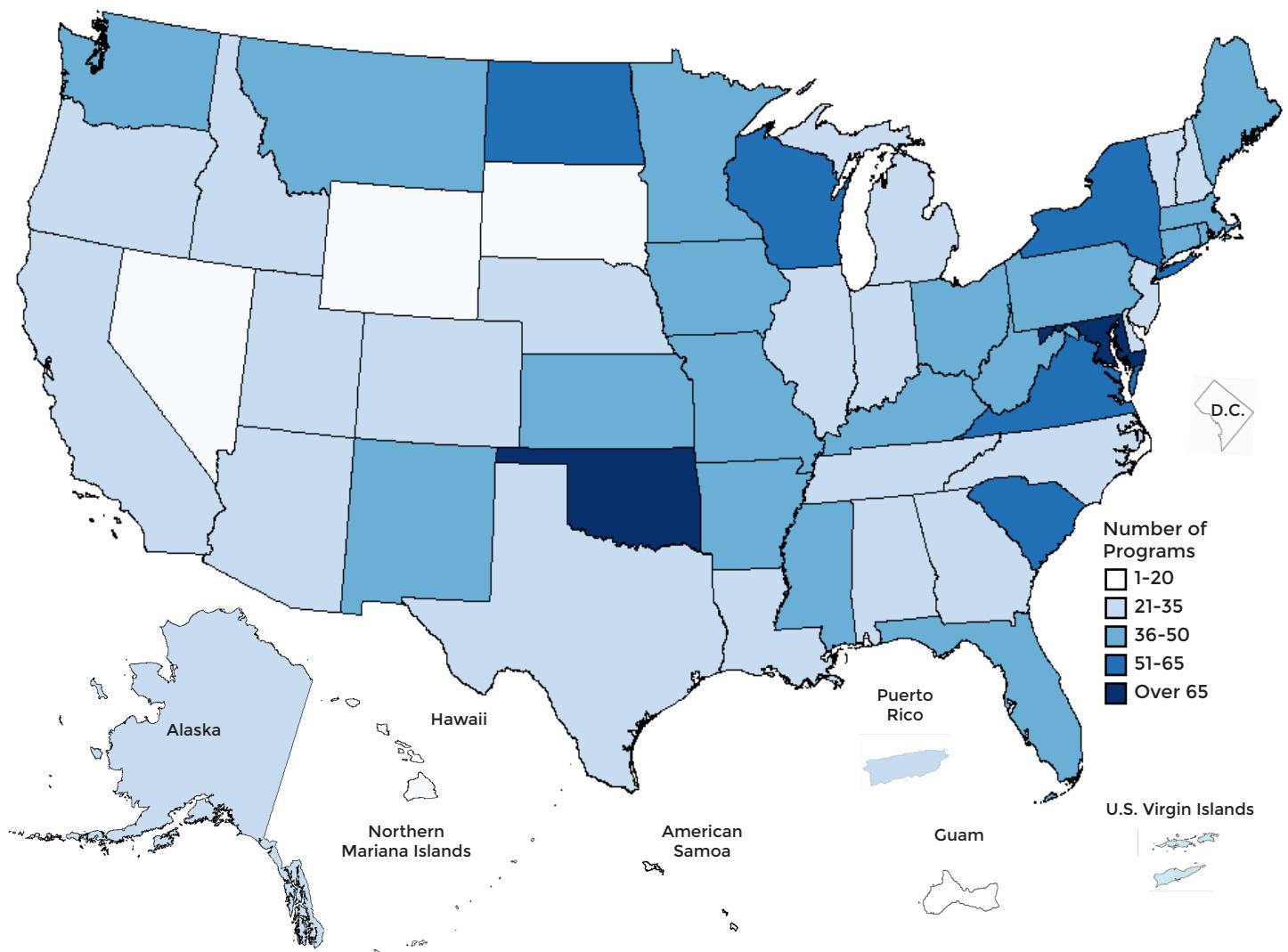


Influenced by the SSBCI program and the emerging idea of “innovation clusters”⁷, many states legislated new programs focused on fostering business formation and the capital or product development needs of entrepreneurs seeking to start or grow small businesses. These new initiatives included technology transfer, angel investor, microloan and venture capital programs, as well as efforts to better coordinate business technology transfer activities with state university resources. States also increasingly attempted to target their incentives to specific industry sectors that they were trying to develop or attract to the state.

During the post-Recession period, some of the most commonly targeted industry sectors were energy, manufacturing, and film. In addition to creating new incentives, during the economic recovery period, some states, like Arizona, Wisconsin and Ohio, decided to completely revamp their approach to economic development by totally restructuring or creating new quasi-public or public-private lead economic development agencies. However, after the proliferation of new state business incentives in 2011, states dramatically curtailed their creation of new incentives over the next few years.

7. The New “Cluster Moment”: How Regional Innovation Clusters Can Foster the Next Economy (September 21, 2010). Available at: <http://www.brookings.edu/research/papers/2010/09/21-clusters-muro-katz>

Figure 9: Incentives by State and Territory, 2015



Additionally, some states also actively sought to reduce their business incentive portfolio because the programs were found to be too narrow, not effective enough, redundant with other efforts, or too costly. In some cases, the programs used all of their funding or reached their designated “sunset” year and the state chose not to renew them. Several of these programs were incentives that states created as a response to the economic crisis, but then deactivated because they no longer needed or could afford to provide them. Figure 9 portrays the number of active business incentives in each state in 2015.

Although states around the nation are beginning to recover from the Recession, many are still facing large budget shortfalls, leading

to increased pressure from lawmakers on economic development agencies to prove the effectiveness of their incentives at developing and attracting businesses. At the same time, these agencies still have the formidable task of helping their states continue their tenuous economic recovery. With these major pressures, many agencies have begun stringently evaluating the effectiveness of their current incentive portfolios. It is therefore likely that in upcoming years, states will continue de-activating incentives programs that cannot demonstrate an adequate return on investment, while also experimenting with new, more highly targeted programs.

Notable Examples of Recent Incentive Portfolio Trends

This section of the report highlights major program changes within specific states, both in terms of program creation and inactivation, with a focus on the most recent years.

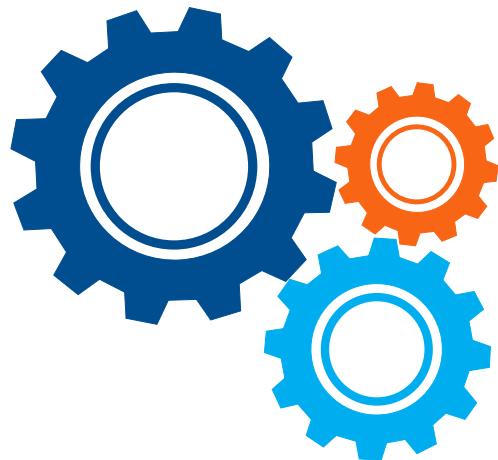
Job Creation Incentives

Minnesota: In 2013, the state created the Minnesota Job Creation Fund, which provides up to \$1 million for businesses that meet specific job creation achievements.

Alabama: In 2015, the state passed the “Alabama Jobs Act” which created a jobs tax credit and a transferable capital investment credit to replace the existing capital credit.

California: In 2014, CA replaced and expanded upon its Enterprise Zone program to create the New Employment Credit. This credit provides qualified businesses with a 35% employment credit on qualified wages over a 5-year period.

Indiana: In 2015, Indiana repealed its New Employer Tax Credit, which was created in 2010 on a temporary basis. The credit was equal to 10% of the wages paid by new Indiana businesses to qualified employees during a 24-month period.



Lending Programs

Since the launch of SSBCI, states have created 21 new Loan Participation Programs to leverage SSBCI funding. New programs in **Florida, North Carolina and South Carolina** have had particular success at deploying funds.

Collateral Support Programs (CSPs) support business lending by using funds to fill a collateral gap for otherwise strong businesses. Of the 14 CSPs launched since 2011, new programs in **Colorado, Ohio, and Idaho** have deployed the highest amount of funding dollars.

With Loan Guarantee Programs (LGP), states partially guarantee a lender's loan in case of default. Since 2011, states have created 11 LGPs – prominent examples include programs in **Alabama and Florida**.

Innovation & Equity Incentives

Minnesota: In 2014, the state created the Innovation Voucher Program to provide \$25,000 in financing to small businesses for purchasing technical assistance and services necessary to their technology transfer activities.

New York: In 2015, NY launched the New York State Innovation Venture Capital Fund, a \$100 million multi-stage fund, and Innovate NY Fund, a \$45 million seed-stage fund, to provide seed funding for the development of early-stage companies in high growth areas.

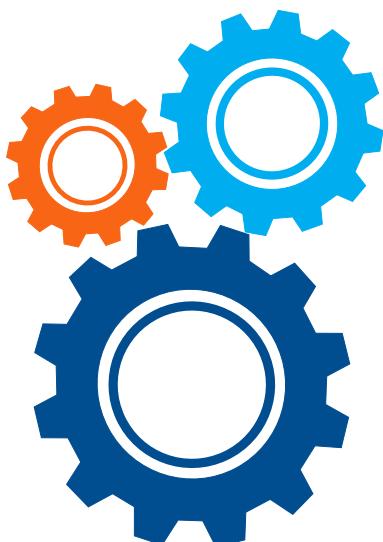
Maine: In 2015, the state reactivated its Seed Capital Tax Credit, after it expired in 2013. The program provides investors in eligible businesses with a tax credit of up to 50% of their investment over a four year period.

Economic Development Agency Restructuring

Rhode Island: In 2015, RI created the Executive Office of Commerce (led by the new position of Secretary of Commerce), reorganized and renamed the Rhode Island Commerce Corporation from the Economic Development Corporation, and budgeted \$44 million for business incentives in its new Economic Development Initiatives Fund.

Maryland: In 2015, the state created a Secretary of Commerce position, renamed the Department of Business and Economic Development (DBED) to the Department of Commerce, transferred some DBED programs to the Maryland Technology Development Corporation (TEDCO), and launched the Maryland Private Public Partnership (P3) Marketing Corporation.

North Carolina: The state created the Economic Development Partnership, a 501(c)(3) nonprofit corporation that oversees the state's efforts in business and job recruitment and retention, international trade, and tourism, film and sports development.



Energy-related Incentives

Arizona: In 2014, AZ created the Renewable Energy Investment and Production for Self-Consumption by Manufacturers Tax Credit, providing tax credits to manufacturer-taxpayers (investing in renewable energy facilities) of up to \$1 million per year for 5 years.

Virginia: In 2015, the state repealed (effective as of 2017) its Clean Energy Manufacturing Incentive Grant Program, which provided funds to certain clean energy manufacturers and wind energy suppliers.

Oregon: OR let its Business Energy Tax Credit program expire, after its significant expansion in 2007. The expansion resulted in a glut of applications by energy project developers, leading to concerns as to whether market conditions could sustain all of the proposed projects aided by the credit.

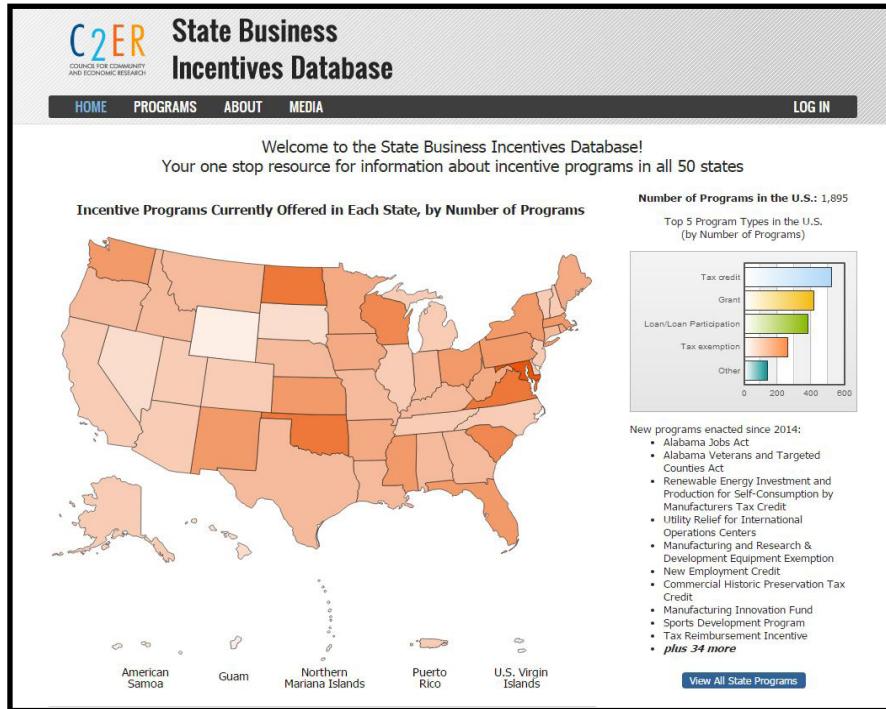
Film Incentives

Maryland: MD set a sunset date of 2016 for its Film Production Tax Credit. The credit will have to be renewed in each subsequent year before it can be reactivated.

California: For the 2015-16 fiscal year, CA expanded its Film and Television Tax Credit Program. The annual allocation rose from \$100 million to \$330 million, and applications will be ranked on how many jobs they will produce, rather than being selected by lottery.

North Carolina: In 2015, NC implemented the Film and Entertainment Grant program, which offers up to a 25% rebate for eligible projects.

Database Overview



The C2ER State Business Incentives Database (stateincentives.org) is a national inventory of state business incentive programs, originally produced in 1983 by the National Association of State Development Agencies (NASDA) and re-invigorated by C2ER in 2004. With almost 2,000 programs from all U.S. states and territories, the Database gives economic developers, business development finance professionals, and economic researchers a one-stop resource for searching and comparing state incentive programs.

The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives, as well as through non-tax programs, such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth. For definitions of all of the categories used in the Database, please see the **Database Glossary**. The State Business Incentives Database represents a continuous effort by C2ER to track

business incentive offerings in every state and territory. C2ER uses a broad range of data sources for data collection, including state agency websites, statutes and codes, budget documents, and interviews with state agency representatives. The Database is updated on a biannual basis. During the update process, C2ER checks each program to ensure it is currently active and its information is accurate and complete. After reviewing currently included programs, C2ER performs research on every state to confirm all active state programs are incorporated in the Database. For more information regarding Database methodology or to learn how to gain access to the data, please see the **website** (c2er.org) or contact C2ER at info@c2er.org.

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