



Business Incentives and Economic Development Expenditures: An Overview of Delaware's Program Investments and Outcomes Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Delaware's full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER's best estimate of the dollars spent on economic development incentives at the state level in Delaware.

In Fiscal Year (FY) 2014, the most recent year for actual spending data is available for all program types, the State of Delaware spent approximately \$12 million on economic development program expenditures and in FY 2013 spent slightly above \$16 million on economic development tax expenditures.¹

Overview of Business Incentives

Delaware has a total 21 active incentive programs, including programs specific to targeted geographic areas. 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, tech and product development, site facility improvements, and so forth.²

[The Center for Regional Economic Competitiveness \(CREC\)](#)

is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.

² The C2ER State Business Incentives Database definition of business incentives may differ from the definition used by the state of Delaware. For a current list of incentive programs as defined by the state, please see the [Delaware Economic Development Office](#) website.

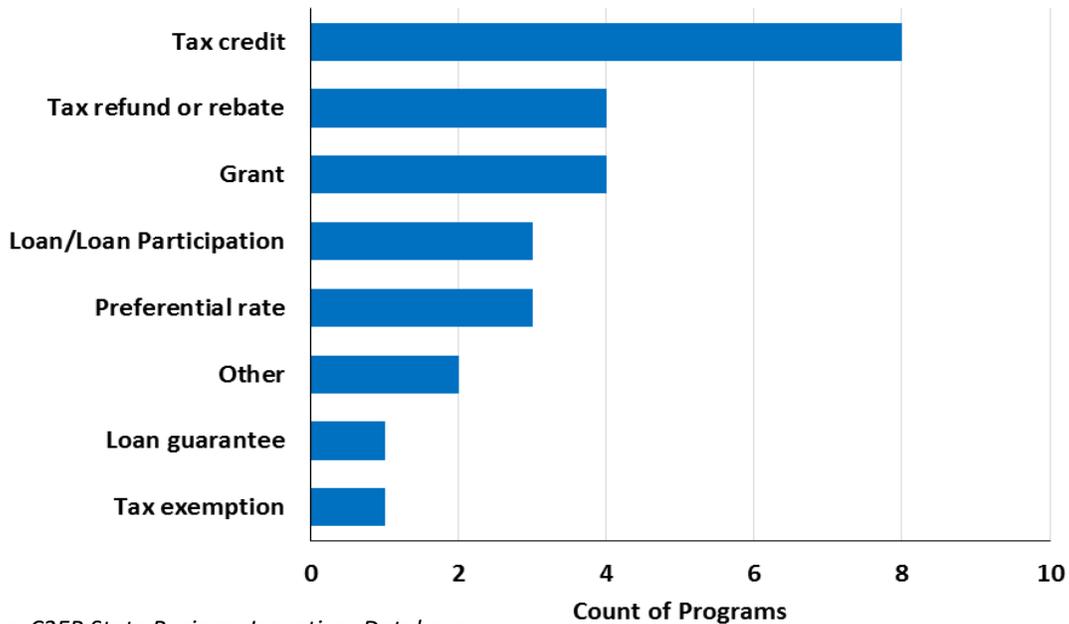


Figure 1: Delaware State Business Incentives by Agency, 2015

State Agency	Number of Programs
Delaware Economic Development Office	10
Delaware Division of Revenue	3
Delaware Division of Energy and Climate	3
Delaware Department of Finance	2
Delaware State Housing Authority	1
Delaware Department of Agriculture	1
Delaware Division of Historical and Cultural Affairs	1

In Delaware, the responsibility for administering these incentive programs is spread across seven agencies. The primary agency responsible for administering incentive programs is the Delaware Economic Development Office (DEDO). DEDO is a public agency structured to serve as a one-stop center for state economic development (See Figure 1.)

**Figure 2: Incentives Programs by Type
Delaware Incentive Programs by Type (2015)**



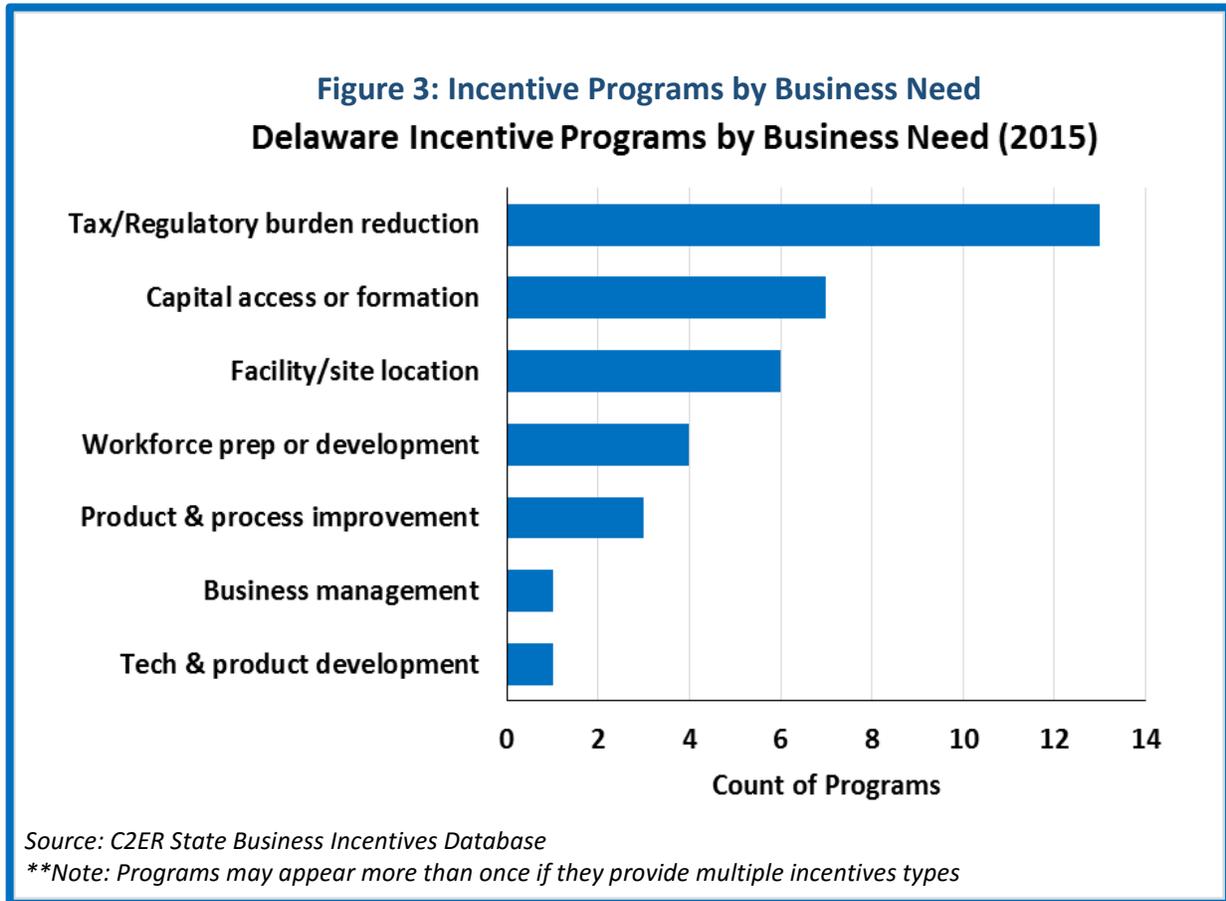
Source: C2ER State Business Incentives Database

****Note:** Programs may appear more than once if they provide multiple incentives types



More than half of Delaware’s active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs across the nation. Tax credits are the most commonly offered incentives by the state of Delaware. Other incentives include tax refunds or rebates, grants, and loans (See Figure 2.)

The emphasis of the state’s current portfolio of incentives is on tax/regulatory burden reduction as well as capital access or formation and facility/site location needs. Compared to other states, Delaware’s program portfolio places a strong emphasis on tax reduction for businesses (See Figure 3.)





Economic Development Program Expenditures

Examining Delaware’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs.

Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.³

According to Delaware’s FY 2014 Budget which details the state’s finances and appropriations for the 2013-2014 fiscal year, the state spent approximately \$12 million on economic development in FY 2014.⁴

State Economic Development Expenditures Function Areas

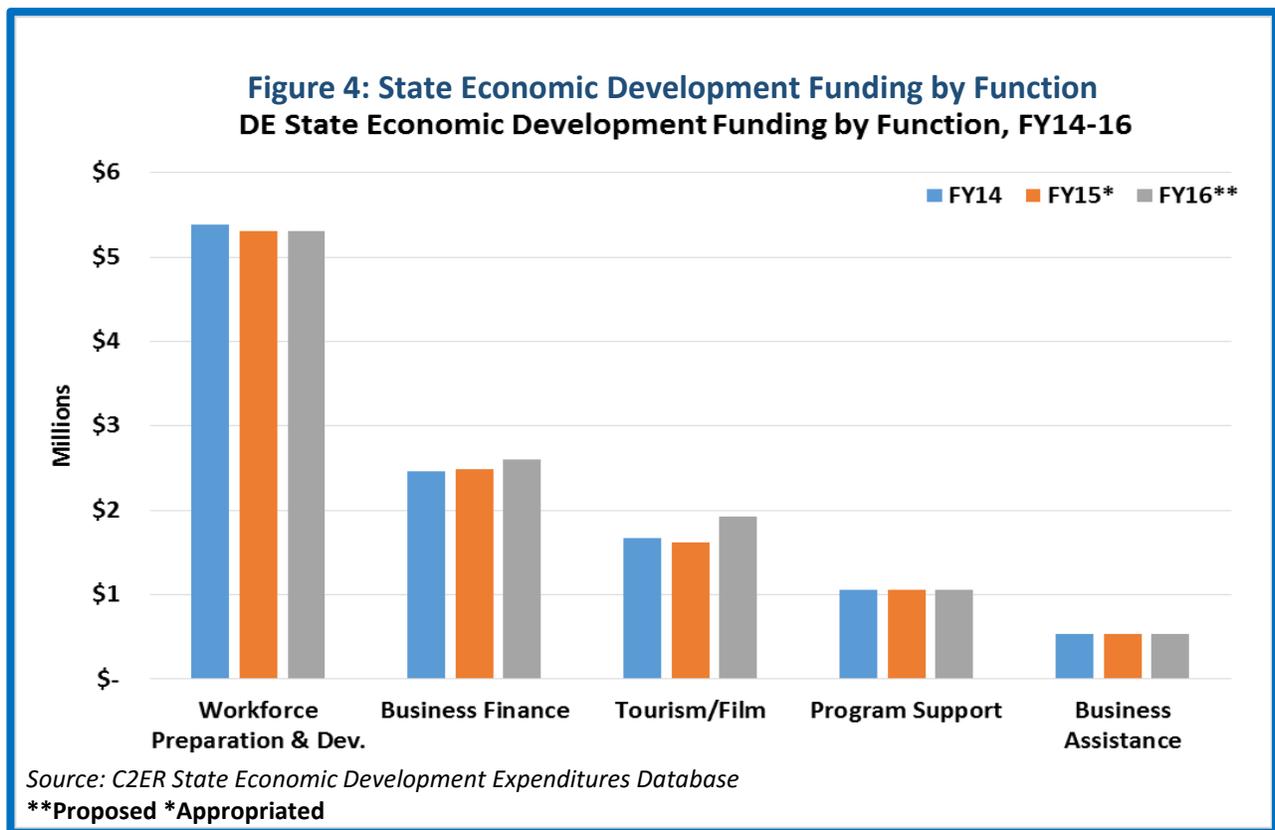
- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

³ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

⁴ This total excludes all federal and local economic development expenditures.



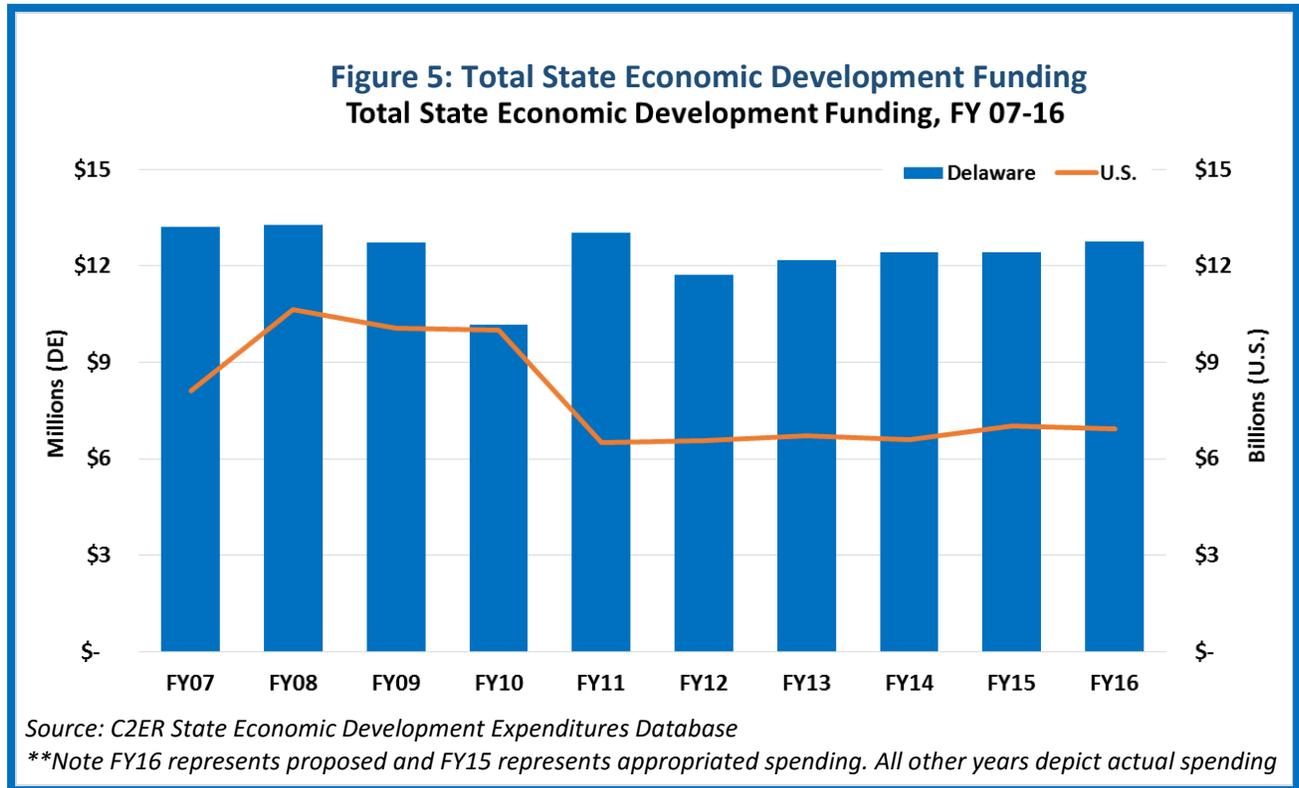
Between FY 2014 and FY 2016, Delaware has held consistent much of its investment in economic development. Notably, Delaware has continued to invest in workforce preparation and development, much of this exclusively through one program – Blue Collar Jobs Training Program. This program provides funding for Delaware employers to provide customized training to upgrade and retain their employees. Half of these funds are designated for agency programs to procure contracted services which provide customized training such as: computer training, electrician’s licensing exam training, and office management to further assist with promotional development.⁵ Over the last three fiscal years, workforce preparation and development spending comprised at least 40 percent of Delaware’s total investment in economic development with over \$5 million in expenditures (See Figure 4.)



⁵ Blue Collar Jobs Training. Delaware Office of Management and Budget, Human Resource Management. State of Delaware. 2015. Accessed at: <http://www.hrm.omb.delaware.gov/training/special/blue/index.shtml>



Between FY 2007 and FY 2009, Delaware’s economic development expenditures declined by roughly 4 percent, decreasing from slightly above \$13 million to slightly below. Economic program expenditures would fall to their lowest level in FY 2010 at \$10 million; a 25 percent decrease from FY 2009 and a near 30 percent reduction from FY 2007 spending levels.



During FY 2011, as many other states reduced economic development spending, Delaware increased its investment. Delaware cut economic development in FY 2012 to just under \$12 million, before leveling off and gradually reinvesting in recent years. Altogether, Delaware’s spending on economic development has held consistent over the years. Though spending levels have not returned to a pre-Recession high of just above \$13 million, Delaware’s proposed FY 2016 spending on economic development falls only 4 percent shy of the state’s FY 2007 investment (See Figure 5.)



Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁶ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

The [FY 2013 Delaware Tax Preference Report](#), published by the Delaware Department of Finance, Division of Revenue in January 2014, is used for the analysis in this section. Data was collected by reviewing and recording all line-items in the report relate to economic development, including all tax credits, abatements, refunds/rebates and exemptions that are designed to influence business investment behaviors. For a large number of tax expenditures, the estimated FY 2013 fiscal effect is recorded. In some cases, tax incentives are described as having a “negligible” or “unknown” effect. In other cases, tax incentives are listed as having no data available, or available but not reported to maintain confidentiality. Therefore, expenditures for these incentives are not reflected in the aggregate total.

In FY 2013, the State of Delaware’s economic development tax expenditures totaled approximately \$16 million, which is relatively higher than the \$12 million Delaware invested in economic development program expenditures for that fiscal year. Delaware administered its economic development tax incentives through the Department of Finance, although some agencies such as the Delaware Economic Development Authority – housed within the Delaware Economic Development Office – serves as the fiscal agent for certain business incentives.

For FY 2013, Delaware had a total of 26 economic development tax expenditures of which, approximately 61 percent offered to reduce corporations’ tax liability, 35 percent reduce the burden of the state’s public utility taxes on targeted industries, and 4 percent are aimed at offsetting the state’s motor fuels tax burden on non-road vehicles. The primary goal of a majority of Delaware’s tax expenditures was job creation. Nearly 31 percent of the state’s tax expenditures offered tax burden reduction in exchange for new hires and business attraction and retention. Delaware gave the greatest tax preference to the manufacturing industry with six programs aimed to reduce the industry’s tax liability. In addition, roughly 58 percent of Delaware’s tax expenditures functioned to provide special industry assistance, 15 percent offered community assistance, nearly 12 percent went towards workforce preparation and development, and approximately 4 percent aided business management, offered business assistance, or supplemented infrastructure improvement, respectively.

⁶ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



Analysis of Available Outcomes

Delaware does not require regular independent evaluations of economic development programs to determine the state's return on investment.⁷ Recently, the Delaware State Legislature has become concerned with the state's return on investment for economic development incentives. The Delaware Joint Sunset Committee (JSC) has been tasked with reviewing the performance of the Delaware Economic Development Office (DEDO). Lawmakers are chiefly concerned with the justification behind the continuation of the Delaware Strategic Fund, the state's primary economic development tool, which provides low-interest loans and grants to companies. In March 2015, the JSC released a [draft report](#), summarizing a questionnaire completed by DEDO staff. The report did not critique any of DEDO's accounting or oversight of economic development programs, but did imply the agency was understaffed and in steep competition with neighboring states Pennsylvania, New Jersey, New York, and Maryland to attract businesses.

Conclusion

In summary, Delaware administers an average number of incentive programs, with an emphasis on tax incentives. The state is located in one of the most economically competitive regions in the country. Delaware is the second smallest by land-mass yet boasts being the home to over sixty percent of Fortune 500 companies. Despite the adverse effects of the Great Recession, Delaware has held relatively consistent with its investment in economic development. The state remains without strict reporting requirements and regular independent audits of its economic development programs. However, state officials have increasingly emphasized the state's business environment as a talking point, highlighting the state's favorable economic indicators rather than business incentives.

⁷ Nann Burke, Melissa, Starkley, Jonathan. Little Tracking of Results From State Corporate Incentives. The Wilmington Delaware News Journal. March 12, 2015. Accessed at: <http://www.usatoday.com/story/money/business/2015/03/12/delaware-corporate-incentives/70142512/>



Appendix A: Full List of Delaware State Business Incentives (2015)

Program Name	Program Provider	Business Need(s)	Type
Delaware Rural Irrigation Program (DRIP)	Delaware Department of Agriculture	Product & process improvement; Capital access or formation	Loan/Loan Participation; Preferential rate
Research and Development Tax Credit	Delaware Department of Finance	Tech & product development; Tax/Regulatory burden reduction; Product & process improvement	Tax credit
Veterans Opportunity Credit	Delaware Department of Finance	Tax/Regulatory burden reduction; Workforce prep or development	Tax credit
Delaware Electric Vehicle Charging Equipment (EVSE) Rebate Program	Delaware Division of Energy and Climate	Tax/Regulatory burden reduction	Tax refund or rebate
Delaware Clean Vehicle Rebate Program	Delaware Division of Energy and Climate	Tax/Regulatory burden reduction	Tax refund or rebate
Delaware Heavy Duty Vehicle Rebate Program	Delaware Division of Energy and Climate	Tax/Regulatory burden reduction	Tax refund or rebate
Historic Preservation Tax Credit	Delaware Division of Historical and Cultural Affairs	Facility/site location; Tax/Regulatory burden reduction	Tax credit
Alternative Investment Credit Required for Telecommunications Services	Delaware Division of Revenue	Tax/Regulatory burden reduction	Tax credit
New Business Facility Corporate Income Tax Credit	Delaware Division of Revenue	Tax/Regulatory burden reduction	Tax credit
Public Utility Tax Rebates	Delaware Division of Revenue	Tax/Regulatory burden reduction	Tax refund or rebate
Tax-Exempt Bond Financing	Delaware Economic Development Office	Capital access or formation; Tax/Regulatory burden reduction	Tax exemption; Preferential rate
Job Creation Tax Credit	Delaware Economic Development Office	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Blue Collar Training Grant Program	Delaware Economic Development Office	Workforce prep or development	Grant



Program Name	Program Provider	Business Need(s)	Type
Brownfields Assistance Matching Grants	Delaware Economic Development Office	Facility/site location; Capital access or formation	Grant
Delaware Capital Access Program	Delaware Economic Development Office	Capital access or formation	Loan/Loan Participation; Loan guarantee
Delaware Strategic Fund (DSF)	Delaware Economic Development Office	Capital access or formation; Facility/site location; Workforce prep or development; Facility/site location	Grant; Loan/Loan Participation; Preferential rate
Business Finder's Fee (BFF) Tax Credit	Delaware Economic Development Office	Tax/Regulatory burden reduction; Facility/site location	Tax credit
Capital Investment	Delaware Economic Development Office	Capital access or formation; Facility/site location	Other
Delaware Technical Innovation Program (DTIP)	Delaware Economic Development Office	Capital access or formation; Product & process improvement	Grant
Downtown Delaware	Delaware Economic Development Office	Business management	Other
Neighborhood Assistance Tax Credit Program	Delaware State Housing Authority	Tax/Regulatory burden reduction	Tax credit



Appendix B: DE Economic Development Program Expenditures (2015)

Function	Activity	Total State Funding
Administration	Info systems, accounting, human resources, etc.	\$ 320,900
Business Assistance	Small business dev. (e.g., SBDCs)	\$ 532,100
Business Finance	Fund Management	\$ 2,489,100
Community assistance	Funding for targeted geographic zones	\$ 125,000
Domestic Recruitment/Out-of-State	Marketing/Prospect Dev. (Domestic)	\$ 300,000
International Trade and Investment	Export promotion (excl. overseas representation)	\$ 217,500
International Trade and Investment	Other International Trade and Investment	\$ 55,000
International Trade and Investment	Overseas representation	\$ 217,400
Program Support	Secretary/Director's Office	\$ 1,053,300
Special Industry Assistance	Agriculture/agribusiness	\$ 194,600
Tourism/Film	Major events/festivals	\$ 40,300
Tourism/Film	Other Tourism/Film	\$ 100,000
Tourism/Film	Tourism development	\$ 1,006,800
Tourism/Film	Tourism promotion (exc. Advertising)	\$ 475,000
Workforce Preparation & Dev.	Incumbent worker training	\$ 5,310,100
TOTAL		\$ 12,437,100



Appendix C: DE Economic Development Tax Expenditures (2013)

Description	Total Funds
Asset Management Corporation	Negligible
Business Finder's Fee Tax Credit	0
Clean Energy Technology Device Manufacturing Tax Credits	0
Credits for Development at "Brownfield" Sites and Facilities	Negligible
Deduction of Interest from Affiliate Companies	Negligible
Exemption for Electronic Pager Service	Negligible
Exemption of Electricity Used by Automobile Manufacturers	0
Exemption of Electricity Used in Certain manufacturing Processes	\$100,000
Exemption of Gas Used by Automobile Manufacturers	0
Exemption of Investment Holding Companies, Firms Managing Intangible investments of Mutual Funds	Unknown
Headquarters Management Company	Unknown
Historic Preservation Credit	Negligible
Land and Historic Resource Tax Credit	Negligible
Motor Fuel Tax Refunds	\$165,000
Neighborhood Assistance Tax Credit	\$450,000
New Economy Jobs Credit	0
Public Utility Exemption for Corporations Reorganizing Under Provisions of the Bankruptcy Code	Less than \$50,000
Rate Reduction for Electricity Used by Manufacturing, Agribusiness and Food Processing Firms	\$800,000
Rate Reduction for Gas Used by Manufacturing, Agribusinesses, and Food Processing firms	\$200,000
Rate Reduction for the Provision of Cable and Satellite Television Services	\$9,700,000
Refunds of Public Utility Tax to Firms that Qualify for the New Facilities Business Credit Program	Less than \$50,000
Research and Development Tax Credit	\$2,200,000
Tax Credit for Creation of Employment and Qualified Investments in Business Facilities	\$2,600,000
Tax Credit for Creation of Employment and Qualified Investments in Targeted Areas	See item 2.05
Tax Credits for the Mitigation of Commuter Traffic During Peak Travel Period	Negligible
Veteran's Opportunity Credit	\$20,000