

EXAMINING THE LOCAL VALUE OF ECONOMIC DEVELOPMENT INCENTIVES

Evidence from four U.S. cities



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Summary

Every year local and state governments in the United States expend tens of billions of dollars on economic development incentives. Under intense pressure to deliver economic opportunity, policymakers utilize incentives to encourage private sector firms to create jobs, invest in communities, and strengthen local industries. Drawing on a detailed literature review and a unique analysis of economic development transactions in four U.S. cities (Cincinnati, Indianapolis, Salt Lake County, and San Diego), this report advances a framework for inclusive economic development to help leaders analyze and evolve their incentive policies. Its key findings include:

1. **Economic development incentives remain a core aspect of local and state economic development policy.** This report defines economic development incentives as direct financial benefits that incentivize a firm's opening, expansion, or retention. What distinguishes incentives from broader economic development efforts is that governments selectively provide these incentives to individual businesses, arguing that their investment or expansion would not occur but for the incentive. Estimates suggest that these policies contribute to significant public expenditures, ranging between \$45 and \$90 billion per year depending on the definition and estimation method.
2. **Incentives have come under renewed scrutiny from both academic researchers and the public.** The competition between cities to land Amazon's second corporate headquarters—along with the controversial billion-dollar incentives packages being offered—has thrust local and state economic development approaches into the public spotlight. Pressure to limit incentives for big

corporate relocations has drawn on academic evidence that remains skeptical about the effectiveness of incentives, arguing that incentives do not influence business decisions to nearly the extent policymakers claim nor are they properly targeted to businesses and industries that can offer the greatest economic and social benefit.

3. **Cities should target incentives based on core principles of inclusive economic development.** A review of local and state economic development incentives provided to firms in four U.S. cities finds that transactions align with several principles of inclusive economic development but fall short on others. Cities, regions, and states must master the global scale and technological complexity of the advanced economy and address the entrenched and exclusionary biases that prevent all workers and communities from meeting their productive potential. We distill this dynamic into four principles toward which cities and states can align incentives. Drawing on unique transaction-level information with businesses in Cincinnati, Indianapolis, Salt Lake, and San Diego, we conducted a "census of incentives" to determine whether local and state incentive policies are aligned with these four principles:
 - **Grow from within** by prioritizing firms in advanced industries that drive local comparative advantage, innovation, productivity, and wage gains. Across all four cities, local and state economic development incentives disproportionately go to firms in advanced industries. On average, advanced industries account for about 20 percent of economic output but receive about one-third of all incentives.

- **Boost trade** by facilitating export growth and trade with other markets in the United States and abroad in ways that deepen regional industry specializations and bring in new income and investment. Across all four cities, local and state economic development incentives disproportionately go to firms in exporting industries. The export intensity of industries that receive economic development incentives—that is, the share of local output accounted for by goods and services exports—across the four cities is more than twice as high (25 percent) as the economy as a whole (11 percent).
- **Invest in people and skills** by incorporating workers' skill development as a priority for economic development and employers so that improving human capacities results in meaningful work and wages. Partly because of their tradability and technological sophistication, incentivized industries in these four cities pay 25 percent higher wages than the overall economy. Yet, we identified concerns related to racial inclusion. Black and Hispanic workers remain underrepresented in industries that receive economic development incentives, and a low share of incentives go to firms for job training purposes.
- **Connect place** by catalyzing economic place-making, and work at multiple geographic levels to connect local communities to regional jobs, housing, and opportunity. Within this principle, many cities focus incentives on addressing blight and distress in communities of concentrated poverty. Cincinnati and Salt Lake clearly display this focus, but

it is less apparent in Indianapolis and San Diego. The average poverty rate of a neighborhood in which a business or redevelopment receives incentives is nearly 30 percent in Cincinnati and 18 percent in Salt Lake, compared to jurisdiction-wide poverty rates of 18 percent and 12 percent, respectively.

4. **Economic development leaders should ensure incentives policies align with broader economic objectives, embrace public transparency and rigorous evaluation, and only target firms that advance broad-based opportunity.** While not a full analysis of economic impact, our findings offer some implications for economic development incentives policy and practice. First, policymakers should ensure incentives reflect local and regional economic objectives. This census of incentives provides one guide for how cities can situate their incentives practices within four principles of inclusive economic development. Second, localities must commit to making incentives information publicly transparent, and then rigorously evaluate their impact on firm outcomes to determine what works. Finally, clearer criteria and more effective targeting should reserve incentives only for those firms that will advance broad-based opportunity, either by incentivizing opportunity-rich firms and industries, incentivizing firms to provide workers more opportunity, or by addressing place-based disparities in opportunity.

Fortunately, we observe progress toward a more responsible and rigorous incentives approach in many U.S. cities, signaling a nascent but necessary progression in the practice of economic development. We hope this report can help provide insights and tools to local leaders as they undertake that important and needed evolution.

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I. Introduction

In October 2017, Amazon, the world's fourth largest company, received 238 proposals from North American cities aiming to become the site of its second corporate headquarters (or HQ2). In a uniquely public request for proposals, Amazon asked applicants to highlight their local strengths: the talents of their workforce, quality of their infrastructure, strength of their schools, and livability of their communities.

Amazon also requested each jurisdiction list their tax incentive programs that would defray the cost of their proposed \$5 billion investment. Critics looked askance at a company valued at close to three-quarters of a trillion dollars requesting public subsidy, but many cities and states responded with significant packages. Corporate relocations and expansions such as the one proposed by Amazon have declined by 50 percent over the past decade, and as the supply of deals has dwindled, the average incentive price tag has increased.¹ The packages for Amazon reflect this upward trend. New Jersey offered \$7 billion. Maryland offered \$5 billion. Philadelphia offered \$3 billion. Illinois's tax credit package could total up to \$1.3 billion.²

The incredible volume of city bids, and the historic size of the incentive packages, reflects not only the scale of the Amazon investment, but the intense pressure that economic development officials in U.S. cities and states are under to deliver economic opportunity in the face of widening socioeconomic disparities. Since 1980, the bottom 50 percent of earners—half of U.S. workers—have experienced zero before-tax income growth.³ In 2016, only 11 of the largest 100 U.S. metropolitan areas experienced gains in metrics of growth, prosperity, and inclusion.⁴

Mayors, governors, and other local and state institutions remain on the frontlines of the nation's central challenge: ensuring that more people and communities share in the benefits of economic growth. Two disruptions are forcing the local and state economic development field to reevaluate its tactics: 1) the declining viability of an economic development approach predominantly reliant on a declining pool of business attractions, and 2) the acknowledgment that, in the face of both structural opportunity gaps and rapid technological change, no amount of overall growth seems to be enough to deliver widespread prosperity.⁵

These tectonic shifts require a set of economic development principles that recognize cities must master the global scale and technological complexity of the advanced economy *and* address the entrenched and exclusionary biases that prevent all workers and communities from meeting their productive potential. In "Remaking Economic Development," Amy Liu of the Brookings Metropolitan Policy Program distilled this dynamic into four principles:

1. **Grow from within** by prioritizing firms in advanced industries that drive local comparative advantage, innovation, productivity, and wage gains
2. **Boost trade** by facilitating export growth and trade with other markets in the United States and abroad in ways that deepen regional industry specializations and bring in new income and investment
3. **Invest in people and skills** by incorporating skills development of workers as a priority for economic development and employers so that improving human capacities results in meaningful work and income gains

4. **Connect place** by catalyzing economic place-making and work at multiple geographic levels to connect local communities to regional jobs, housing, and opportunity

This report examines how one critical economic development tool—incentives—aligns with these principles. Incentives attract the most attention when tied to megadeals like Amazon, but they are also a significant part of the day-to-day economy-shaping conducted by local and state governments. And while the public’s support of these programs totals tens of billions of dollars per year, surprisingly little research exists examining how incentive transactions, particularly those conducted by local governments, align with modern economic realities.

This analysis advances our understanding of what kinds of firms, industries, and neighborhoods receive economic development incentives, as previous research suggests the way governments target incentives significantly determines their

broader public benefit. To do so, we conducted a census of incentives in four central cities, drawing on five years of transactions between local and state governments and firms in Cincinnati, Indianapolis, Salt Lake County, and San Diego. While these data cover a small sample and do not allow for a full cost-benefit evaluation of economic and social impact, they do fill an important gap in prior research: a rare transaction-level snapshot into how local and state governments target incentives in four urban economies.

The report begins by briefly defining what incentives are, how they work, and why they matter, including a review of the most relevant literature. It then analyzes incentive spending in the case study cities to see how it aligns with four key principles of 21st century economic development. Finally, the report concludes with implications for economic development incentives policy and practice that can support local growth and opportunity.

II. Background

What are economic development incentives, why and how do cities and states provide them, and do they work? This section briefly reviews those three questions in turn.

WHAT ARE ECONOMIC DEVELOPMENT INCENTIVES?

In this report, we define economic development incentives as direct financial benefits provided to firms to incentivize their opening, expansion, or retention. What distinguishes incentives from broader economic development efforts is that

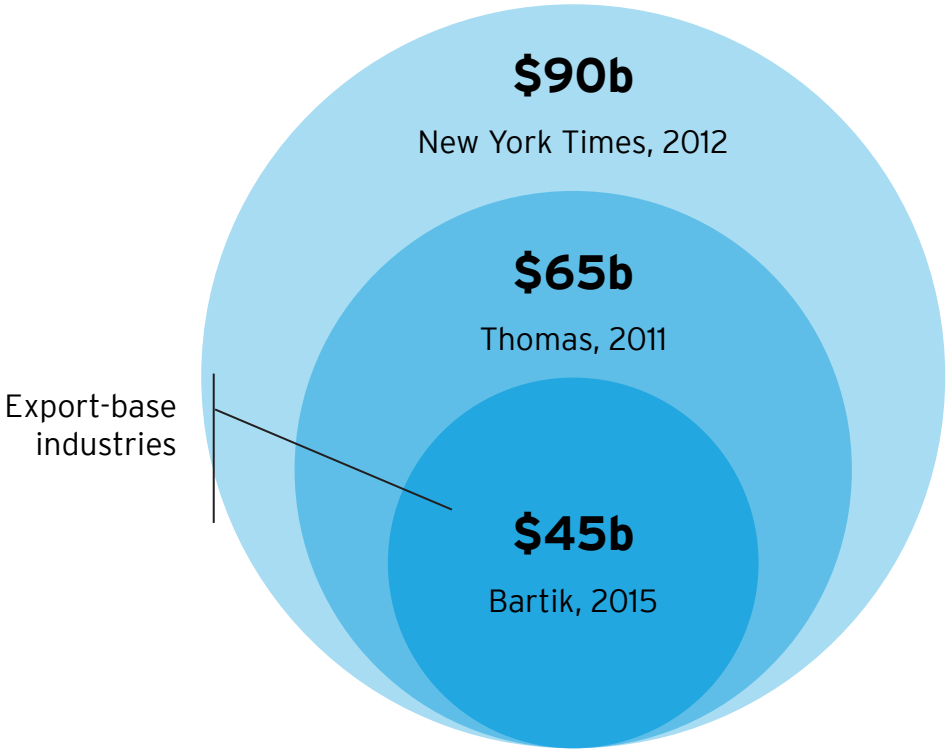
governments selectively provide these incentives to individual businesses.

Since firms have been mobile, local and state governments have been incentivizing businesses to locate within their jurisdictions. Richard McGahey traces the origins of incentives back to the depths of the Great Depression. In 1936, Durant, a small town in Mississippi, developed a new type of industrial revenue bond to induce Real Silk Hosiery Mills, and its 4,000 knitting-machine operators, to relocate from Indianapolis.⁶ The Durant strategy soon expanded to the rest of

FIGURE 1

Local and state economic development incentives are a big business

Estimated total amount of local and state incentives (billions, in 2015 US dollars)



Source: Louise Story, Tiff Fehr, and Derek Watkins, “Explore Government Subsidies,” The New York Times, December 1, 2012. K. Thomas, Investment Incentives and the Global Competition for Capital (Springer, 2010). Timothy Bartik, “A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States” (Kalamazoo: W.E. Upjohn Institute for Employment Research, 2017)

the industrializing American South as a means to spur new demand for labor, particularly in manufacturing. Northern communities and states eventually responded with their own incentive packages. As demand for firms went global during the 1970s and 1980s, the economic development incentive regime spread nationwide.

Today, economic development incentives represent a fundamental component of local and state economic policy. In 2012, the New York Times estimated that U.S. cities, counties, and states issued roughly \$80 billion in incentives per year, or about \$90 billion 2015 dollars.⁷ The Upjohn Institute for Employment and Research found that total local and state incentives provided to firms in “export-base” industries had an annual cost of \$45 billion in 2015, or about 30 percent of the average local and state business tax collections. This represents a *tripling* of incentive spending on these industries since 1990, up from 9 percent of local and state business taxes.⁸ Finally, Kenneth Thomas estimated that in 2011 incentive spending amounted to \$65 billion in 2015 dollars. The significant differences between these estimates reflect the lack of comparable, timely, and relevant information about local and state economic development incentive spending.

No matter the estimate, the local and state spending dwarfs other forms of economic development funding. The Economic Development Administration’s latest budget request was \$258 million.⁹ Our colleagues Elizabeth Kneebone and Alan Berube estimated that federal spending focused on neighborhood revitalization totals about \$14 billion per year.¹⁰

WHY AND HOW DO CITIES AND STATES GIVE OUT ECONOMIC DEVELOPMENT INCENTIVES?

The numbers reveal that economic development is big business in American cities and states. Why?

The first rationale is economic. Talk to an

economic developer who wants to incentivize a company to locate in a particular neighborhood, city, or state and you may hear the “but for” test: “*But for* this incentive, company X would not be making this investment.”

Under this rubric, cities and states deploy a firm-specific financial incentive to nudge firm behavior in a manner in which it would not otherwise occur in order to improve a given location’s labor market, tax base, physical footprint, or industrial advantage. Should the “but for” condition hold and the economic benefits of the investment outweigh the costs of the incentives, the deal raises the collective well-being of the jurisdiction since investment and job creation has occurred where it would have otherwise not, with the incentive making the difference.

Cities and states often use incentives to attract or retain firms in a specific sector, industry, or technology to develop or sustain competitive advantage. Many Southern U.S. states have deployed this approach in attracting major automotive or aerospace manufacturers and their suppliers, but it also extends to cities and states seeking to gain a foothold in advanced industries like life sciences or information technology. Governments undertake these strategies with the hope that if the incentive landed a major employer in a high-growth export industry, it could deliver notable spillover benefits to other businesses and workers that support those industries.¹¹

Other times the purpose of economic development incentives—particularly at the local level—is to spur physical revitalization of distressed neighborhoods. This approach is particularly popular in slower growth markets with struggling economies and lots of empty land or vacant city-owned property. From a city’s perspective, those are underutilized assets, and incentivizing a developer or firm to fill that vacancy is a win-win: The firm gets a tax benefit to spur market activity in a community in which there is little, and the city expands its tax base because it is now receiving revenue from a dormant asset.

Finally, some incentives aim to correct market failures such as the private sector's underinvestment in job training or research and development (R&D). Instruments such as job training tax credits, workforce development grants, or R&D tax credits nudge companies to make investments that enhance the public good.

The second rationale for incentives is political. Like in any job, elected officials and political appointees are judged by their performance: Are the streets clean? Are communities safe? How many jobs have been created? Do residents *feel* like their living standards are rising? As an increasing share of Americans express declining confidence in their economic circumstances, local and state policymakers have come under intense pressure to deliver growth that lifts up a broad swath of their residents.

Enter economic development policy. As a field, economic development tends to measure its impact based on private sector investments and the resulting job creation. Those metrics are subject to macroeconomic fluctuations, industry and technological trends, and the broader competitive assets of a regional economy (e.g. workforce, infrastructure, universities, etc.). Some of those factors are outside any city's direct control while others require local investments over many political cycles. Constituents, however, hold local officials to account for economic changes in their communities, regardless of what is driving those changes.

The political pressure to deliver near-term economic results is quite real and occurs through a couple of different channels. The first channel is the "Amazon effect." As was just seen with that company's HQ2 competition, a footloose corporation dangles a major investment in front of many cities. Political officials then find themselves in a classic prisoner's dilemma. They know that they would all be better off simply competing on their natural advantages, not by offering incentives. But because many cities will use incentives, all feel they must. In a recent New York Times op-ed, former Delaware Governor

Jack Markell highlighted how he begrudgingly accepted this dynamic because he thought it was necessary to deliver economic opportunities for his constituents.¹²

Site selection consultants are oftentimes the intermediaries between firms and local and state governments in these types of transactions and are a fundamental component of the modern economic development system. Firms hire site selectors when they are contemplating a new expansion or relocation. Selectors compile the firm's workforce, land, energy, and real estate requirements and then provide those to local and state economic development offices. Governments may have no direct interaction with the investor they are courting until the very end of the deal. Companies and site selectors have disproportionate advantage in these interactions. It is nearly impossible for cities and states to determine whether firms actually need the incentive, but they are competing in a non-transparent market with other jurisdictions for the jobs and tax revenue corporate relocations provide. And, ultimately, should the commissions of site selectors be tied more to the size of the incentive packages than the goodness of fit between the location's business environment and the company's needs, it could lead to an even more perverse overprovision of incentives.

There is a second political incentive for incentives. Local job creation and development are great, but local job creation and development that policymakers can claim direct responsibility for is even greater. If officials are measured based on the economic impact of the policy tools at their disposal, they may be motivated to overextend the use of those tools. Recall that the "but for" test depends on local officials being stingy about how they deploy incentives so as not to publicly subsidize a firm that would have made the same decision without the incentive. Yet, if that policymaker's performance is based on the number of deals they incentivized, then perversely it may be in their interest to give *more* incentives, not fewer. Evidence suggests that this is often the case.¹³

ARE ECONOMIC DEVELOPMENT INCENTIVES GOOD PUBLIC POLICY?

Significant spending on incentives has invariably led to questions about their efficacy. Hundreds of academic studies and dozens of books have documented the rationale and impact of economic development incentives, and whether they further job creation, income growth, and general economic welfare.¹⁴

When taking a national perspective, few economists conclude that the city and state incentives competition is an effective use of taxpayer money, as total U.S. welfare remains unchanged regardless of where a business decides to locate. To avoid this inefficiency, the European Union (EU) has utilized “state aid control” as a means to prevent EU member states from outbidding each other for firms.¹⁵ However, despite agreement that bidding wars between communities is suboptimal, U.S. federal intervention appears unlikely.

How, then, can cities and states orient their economic development tools toward enhancing local welfare? To this question, the unsatisfying answer comes from Sammis White: “all (economic development) tools work some of the time, none of the tools work all of the time, and a few tools can be said to work only under special circumstances.”¹⁶ In other words, it depends—on the incentive type, on the place, and on the capacity of the incentive provider. Economists, even with improved data and estimation techniques, have yet to reach consensus on what works.¹⁷

That lack of unanimity noted, we would generally characterize the academic literature as skeptical about the impact of economic development incentives:

- Skeptical that tax incentives really matter that much to companies; state, local, and property taxes are a relatively small cost compared to labor and recent evaluations suggest that a minority of companies actually make decisions based on incentives¹⁸

- Skeptical that tax incentives actually lead to job creation, or if it does that that job creation can be targeted to specific populations or communities that need it most¹⁹
- And skeptical that, even if incentives do deliver all these goals (and sometimes they do), that it can be done in a way that makes fiscal sense

In a comprehensive review of the incentives literature, Alan Peters and Peter Fisher conclude that local and state policymakers need to lower their expectations for what benefits economic incentives can deliver while focusing their attention and resources on strengthening public goods related to infrastructure, education, and quality of life.²⁰

Other economists have shown that tax rates, and therefore incentives that lower those rates, do influence firm location decisions.²¹ In one of the most comprehensive studies of economic development incentives to date, Timothy Bartik finds that firm-level incentives *can* affect business location decisions but that in many cases do not deliver a good public return on investment, often because they are not strategically targeted. Three reasons stand out. First, Bartik argues, governments overprovide incentives to firms that do not need them to locate in a given jurisdiction. In other words, incentives in practice do not always follow the “but for” test. Moreover, some firms are more valuable to local economies than others, but incentives struggle to target firms that can offer the greatest local spillover benefits, such as those that pay high wages, conduct research and development, and export their products and services outside the local economy. These activities generate multiplier effects that ripple throughout the rest of the economy. Second, governments do not strategically reserve incentives for firms that are investing in societally valuable activities that the private sector underprovides, such as research and development or skills training. Finally, Bartik argues that incentives will have the greatest social benefit if the hiring they induce goes to previously unemployed workers in the local

economy, yet it is unclear whether economic development departments can effectively target these objectives.²²

The political economy that drives these dynamics is complicated. Bartik concludes that one reason state governments may not sufficiently target incentives is that “political culture and past practices seem to dictate incentives more than economic and fiscal conditions.”²³ In many instances, the political rationale certainly overwhelms the market rationale. Yet, there is a second, more nuanced, challenge related to effective targeting: information. Governments may have the best intentions but, like all public officials, operate with limited resources and imperfect information. Local governments simply may not have the time, information, and expertise to target public resources to their greatest economic and social impact, relying more on intuition and experience.

Additionally, the time horizon of these investments does not correspond with the time

horizon of most local elected officials, who demand more and better jobs in the near-term, and require significant discretionary resources up-front that many municipalities simply do not have. Incentives remain a popular tool because they align with realities of the political cycle, can draw on deferred tax revenues as opposed to discretionary funding, and position a city with the necessary ammo in an arms race that, while flawed, is a modern reality.

In short, incentives will likely remain a substantial policy tool for local and state economic developers in the near-term, and even the most intense incentive critics acknowledge that they can be societally beneficial if properly targeted, transparently deployed, and rigorously evaluated. However, if better *targeting* is an important component of better incentives policy, then it is important to understand the characteristics of the firms that actually receive incentives. What is needed is a more granular analysis of incentive transactions, firm by firm, industry by industry, and neighborhood by neighborhood.

III. Data and methods

This section summarizes the data and methods that undergird this report, which occurred in four basic stages:

1. City selection
2. Incentives data collection
3. Industry and neighborhood data collection
4. Linking incentives data to industry/neighborhood data

CITY SELECTION

Prior economic development incentives research has rarely analyzed transaction-level information across multiple jurisdictions. To do so, Brookings collected information on local and state incentives provided to businesses located within the geographic boundaries of four U.S. jurisdictions: the city of Cincinnati, city of Indianapolis (coterminous with Marion County), Salt Lake County, and the city of San Diego.

As part of its city selection process, Brookings asked leaders in over a dozen U.S. cities to participate in the study, seeking geographic and economic diversity. Ultimately, only four cities were willing to share data on economic development incentive transactions over at least five years. Thus, they do not represent a random sample. As such, the results from this study are not statistically representative of all U.S. cities.

INCENTIVES DATA

This study focuses on a five-year window between 2012 and 2016. We define economic development incentives as discretionary financial benefits provided to firms incentivize economic activity. Under this definition, incentives include cash grants (e.g. job training grants), tax abatements and credits, and special forms of financing (e.g. tax increment financing, industrial revenue

bonds, etc.). It would not include loans or general technical assistance provided to companies by economic development departments or other local and state government actors. It also would not include tax credits that are available to all companies. Table 2 lists the main incentive programs from each city and state.

Data collection required multiple sources. The economic development departments at the city of Cincinnati, city of San Diego, Indy Chamber, and Salt Lake County provided local incentives. Brookings complemented this list with information from Good Jobs First's Subsidy Tracker 2, which collects data from 836 state and local jurisdictions.

In addition to data from Good Jobs First, staff at the city of San Diego and Salt Lake County shared incentives provided to firms in those jurisdictions by their respective state governments. The Indiana Economic Development Corporation publicly lists incentives. Brookings downloaded incentives provided to companies located in the city of Indianapolis from that tool. Similarly, the Ohio Development Services Agency provides data on firms that receive state tax incentives, from which Brookings collected information for firms located in the city of Cincinnati.

Together, the database aims to understand incentives provided by local and state entities to companies within these four municipalities, but the analysis does not extend to the metro area-level. We did not collect data on federal programs nor did we exhaustively collect data on all activities that subsidize firm-level behavior within these cities, including information from organizations that incentivize housing development and non-government entities that support entrepreneurship, business competitiveness, or cluster development.

Our focus is on publicly provided incentives for which we can obtain enough information about the firm to match it to an industry and geographic location.

[INDUSTRY AND NEIGHBORHOOD DATA](#)

We are interested in how well incentives align with the principles of “high-road economic development,” which seeks to direct economic development toward quality jobs that benefit the greater community. These principles acknowledge that industries vary in the wages they pay, the people they employ, and their contributions to key economic outcomes. Thus, we investigate what types of industries receive economic development incentives using county-level data on wages and demographic characteristics provided by Economic Modeling Specialists Inc. (EMSI).²⁴

This study further looks at whether industries that receive economic incentives have unique specializations in R&D, STEM workers, and trade. Brookings [identified](#) 50 industries out of the 287 four-digit NAICS industries as advanced industries by the share of their STEM-oriented workforce and their R&D spending per worker.²⁵ Export data comes from Brookings Export Monitor database, which estimates county-level U.S. exports by production location.²⁶ Brookings’ [method](#) also estimates both goods and services exports for 91 detailed goods and 40 services industries.

An additional principle of high-road economic development involves connecting people and communities to opportunities. As such, we explore the characteristics of communities in which incentivized firms are physically located using data from the U.S. Census Bureau’s American Community Survey (ACS), specifically 2015 5-year estimates.

[LINKING FIRMS TO INDUSTRIES AND NEIGHBORHOOD](#)

The data collected from local and state government sources contains varying levels of information. In nearly every case, the data includes the firm or physical development name, along with the incentive type and amount. In some instances, the data includes individual addresses and industry categorizations.

But for most of the records, we needed to link the firm to an industry code and site address. Linking this information required multiple steps. To attain consistent industry and geographic analysis, we first tried to merge the firm-level incentives with company data from Dunn & Bradstreet (D&B) Hoover’s, an online platform backed by the world’s largest commercial database, which provided site location addresses and industry classifications (6-digit NAICS codes). If there were multiple establishment addresses and/or NAICS codes, and we had no additional information about the incentive to select from that group, we distributed the incentive evenly across the available records. For records that could not be matched with the D&B Hoover’s information, we manually matched the records to an address and industry code when possible using Google Maps searches and information from aggregators like Manta.com.

To link each firm to a neighborhood, we geocoded site addresses using Google Maps Geocoding API and Census Geocoder. This technique allowed us to assign each firm to a Census Tract, geographic units that approximate neighborhoods. We then merged ACS data on neighborhood characteristics to each firm-neighborhood pairing.

For a complete list of incentive programs and categorization, see [Appendix A](#).

IV. Overview of economic development incentives in four U.S. cities

Before delving into how the incentives provided in four cities align with core principles of successful economic development, it helps to understand the economic conditions and basic characteristics of incentive spending in these four markets.

The four cities share several characteristics. All four anchor mid-sized metropolitan areas, which range in population size from 1.1 million inhabitants in the Salt Lake region to 3.3 million in San Diego. All four regional economies are expanding, adding to their employment and output bases between 2011 and 2016. Similarly, GDP per capita—a common metric of living standards—increased in all four metro regions during that same period, suggesting that each economy on average is

becoming more prosperous. Growth has also translated into increases in median earnings in all four regions.

The four cities differ in their economic trajectories on other metrics, however. Labor productivity has increased moderately in San Diego but leveled in Indianapolis and declined in Cincinnati and Salt Lake. Relative poverty rates also vary across the four metropolitan areas. The diverse industrial histories of these four cities is also a notable factor. In Cincinnati and Indianapolis, manufacturing's historic primacy, and subsequent decline, means that those cities tend to have more industrial land that must be repurposed to new forms of economic activity. This physical footprint differs



from Salt Lake and San Diego, which did not tend to house much industrial activity in their urban cores.

These economic conditions help contextualize the local and state incentive tools deployed in each market. Table 2 outlines the lead local agency and its goal, along with key local and state incentive tools. Tracking data from these programs, we estimate approximately \$1.8 billion in total local and state incentives were provided between 2012 and 2016 within the jurisdictional boundaries of the city of Cincinnati, city of Indianapolis (coterminous with Marion County), Salt Lake County, and the city of San Diego.²⁸

However, this overall number masks a significant range between cities. Local and state government provided approximately \$711 million in economic development in Cincinnati, followed by Indianapolis (\$605 million), Salt Lake (\$424 million), and San Diego (\$50 million).

Across the four cities, local governments provided 44 percent of economic development incentives

while states dispensed the remaining 56 percent, but there is also considerable variation in the local-state split across the four sample cities. In San Diego, for instance, the local government distributes a negligible amount of traditional local economic development incentives. Therefore, 96 percent of economic development incentives received by San Diego-based firms come from the state. By contrast, 67 percent of the incentives provided to Salt Lake-based companies come from local economic development entities.

This breakdown matters because there are notable distinctions between the goals of local versus state economic development departments. Local economic development is often concerned with several goals: creating jobs, expanding the tax base, and rejuvenating downtowns and distressed communities. Incentivizing private sector real estate development, therefore, is a much more important for cities than states. States, meanwhile, are more likely to focus incentives on job creation and maintaining competitiveness in key industries.

TABLE 1

The four cities lie within metro economies with varied inclusive growth outcomes²⁷
Metropolitan area, % change from 2011 - 2016

		Cincinnati	Indianapolis	Salt Lake	San Diego
Growth	Gross Metropolitan Product	9.7%	9.0%	15.6%	14.2%
	Jobs	12.3%	8.9%	17.2%	13.4%
	Entrepreneurship	5.5%	19.3%	26.0%	4.6%
Prosperity	Productivity	-2.3%	0.1%	-1.4%	0.7%
	Average Wage	4.0%	4.5%	6.4%	3.5%
	Standard of Living	4.6%	6.9%	7.9%	8.1%
Inclusion	Median Earnings	9.1%	9.2%	7.0%	8.9%
	Relative Poverty Rate	2.2%	-0.4%	-5.7%	3.0%
	Employment -to-Population Ratio	7.4%	5.6%	3.9%	7.6%

Source: Metro Monitor, 2018, Brookings
Note: Entrepreneurship: The total number of full- and part-time jobs at young, private-sector firms less than five years old. Relative poverty rate: The share of people earning less than half of the local median wage (among people at least 16 years old).

The variance between the four cities is notable. In Salt Lake, the largest source of locally provided incentives came from tax increment financing (TIF) programs. Tax increment financing is a public financing tool that many cities use to incentivize private development in designated communities. By providing an area with a TIF

designation, cities can take the tax dollars generated by new development and redirect them away from their traditional uses back into the project area, either to fund community amenities such as infrastructure or to ease the tax burden of the companies that originally invested in those communities.

TABLE 2

Key incentives tools at local and state level

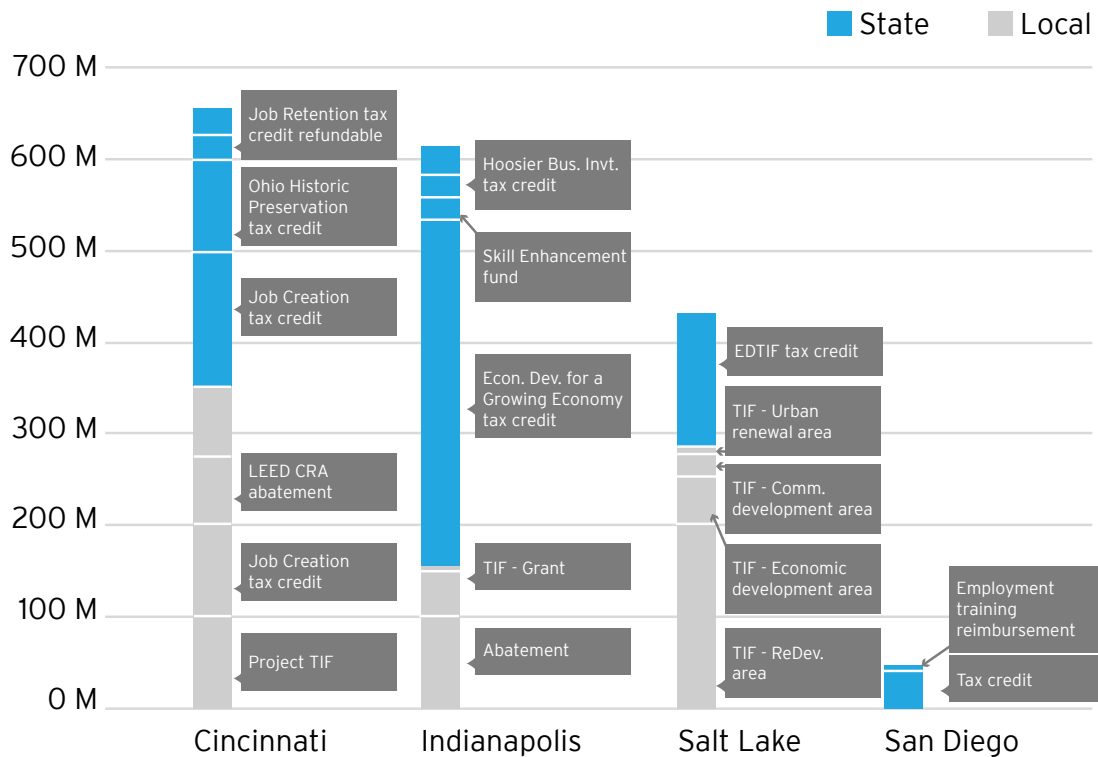
	Cincinnati	Indianapolis	Salt Lake	San Diego
Agency	Cincinnati Department of Community & Economic Development	Develop Indy	Salt Lake County Economic Development Department	City of San Diego's Economic Development Department
Goal	To cultivate commercial development in all of Cincinnati's 52 neighborhoods; serving the needs of residents and businesses through job creation, implementation of public infrastructure projects, urban redevelopment initiatives and revitalization of the city's 34 neighborhood business districts.	Ensuring the Indianapolis region is a place where business can grow and enjoy the accessibility of a small city with the amenities of a large metro.	To attract, retain, and grow businesses in Salt Lake County and to position and promote the region as a strong competitor in the global economy in order to ensure health, prosperity, and exceptional opportunities for all county residents.	Goal 1: Strategically invest in the growth and development of businesses, neighborhoods and residents; Goal 2: Cultivate a globally competitive, sustainable and resilient local economy; Goal 3: Provide high quality public service.
Local	Tax Increment Financing (TIF); Job Creation Tax Credit LEED CRA Abatement	Property Tax Abatement; Tax Increment Financing (TIF)	Tax Increment Financing (TIF)	Business Cooperation Program; Storefront Improvement Program; San Diego Regional Revolving Loan Fund
State	Job Creation Tax Credit; Ohio Historic Preservation Tax Credit	EDGE Tax Credit; Skill Enhancement Fund	EDTIF Tax Credit	Tax Credit; Employment Training Panel Reimbursement

Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

FIGURE 2

Incentive amounts vary significantly across the four cities

2012 - 2016



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

In Salt Lake, the TIF program has designated 119 micro geographies as redevelopment areas, each managed by a redevelopment agency (RDA). Importantly, the county tracks incentive spending based on the total tax increment provided back to RDAs but cannot match these funds to individual companies. Therefore, it is likely that some of the tax increment tracked in this analysis is not going directly to private sector companies. But because of the way the data is collected, it is not possible to separate whether the final use of the increment is for public and private ends.

The second most common local incentive tool across the four cities are property tax abatements. Abatements reduce a firm’s property taxes below normal rates for a defined time span. Abatements

may be provided for key local employers to incentivize a site location decision or to a real estate developer to invest in a particular property or community. This is the most popular tool in Cincinnati and Indianapolis. Indianapolis provides abatements to firms to create new jobs, expand the tax base, and diversify the economy. Cincinnati also offers property tax abatements to companies and developers building or renovating a residential, commercial, industrial, or mixed-use facility when the new or renovated facilities will result in job creation.

Notably, San Diego offers essentially no traditional local economic development incentives. It does not operate a TIF program and sparingly provides firm-specific abatements. Rather, most of San

Diego's economic development efforts involve technical assistance to companies that are trying to navigate permitting or site location decisions. The other three cities provide these types of supports as well, but these technical assistance resources are not included in this analysis.

If city-level economic development is often focused on stimulating physical development and community revitalization, state incentives overwhelmingly focus on overall job creation and building and sustaining key industries. For all four cities, the most popular state-provided incentive is tax credits for new jobs created or payroll invested. States use job creation tax credits to incentivize corporate relocations, expansions,

or retentions. Decisions about when to provide job creation tax credits are often determined by whether the firm is in a key tradable industry for the state and whether it passes a certain wage threshold.

States are also more likely than localities to provide incentives for activities that further a firm's productivity such as research and development, job training, or exporting. Indiana, for instance, operates the 21 Fund, which offers investments in advanced manufacturing and life sciences companies, and the Skills Enhancement Fund, which assists businesses to support training and skills upgrades.

V. How do incentives align with four principles of inclusive economic development?

Cities and states have several tools at their disposal to help firms spur growth and create opportunity. Cities contain a dense mix of the assets that businesses need to thrive: workforce skills, the innovation created in universities and research institutes, the land and infrastructure that enables commerce, and the public policies that shape firm behavior. One could think of an economic development deal being an exchange in which cities offer firms access to these assets in exchange for the jobs and tax revenue they create.

In this transaction, the fundamental drivers of growth—innovation, skills, and infrastructure—are more important to companies than economic development incentives. Incentives, therefore, should not be viewed as a strategy unto themselves, but rather act *in service of* the key principles of broader economic development. In this section, we analyze these four cities' economic development incentives against four principles of high-road economic development adopted from Amy Liu's paper "Remaking Economic Development":

1. **Grow from within** by prioritizing firms in advanced industries that drive local comparative advantage, innovation, productivity, and wage gains
2. **Boost trade** by facilitating export growth and trade with other markets in the United States

and abroad in ways that deepen regional industry specializations and bring in new income and investment

3. **Invest in people and skills** by incorporating skills development of workers as a priority for economic development and employers so that improving human capacities results in meaningful work and income gains
4. **Connect place** by catalyzing economic place-making and work at multiple geographic levels to connect local communities to regional jobs, housing, and opportunity

GROW FROM WITHIN

The first principle—growing from within—draws on a few key tenets of regional economics.

First, local economies are anchored by a core set of industrial specializations, found particularly in a set of 50 advanced industries across manufacturing, services, and energy that meet two conditions: 1) they disproportionately conduct research and development (R&D) and 2) they disproportionately employ workers in science, technology, engineering, and mathematics (STEM) occupations. Because of their unique reliance on and deployment of technology, jobs in advanced industries are highly productive and offer average wages that are twice as high as employment in the economy as a whole.²⁹

Second, advanced industries are important for local economies because they create notable spillovers. Every new advanced industries job in the United States creates 0.8 additional jobs locally, due to the long supply chains these industries attract and the higher spending by advanced industries workers that support activities in locally serving industries³⁰.

Third, advanced industries power innovation, productivity, and wage growth by drawing primarily from *within*, meaning growth tends to occur organically from the existing innovation and workforce assets a region already has rather than a myopic focus on firm attraction. Advanced industry clusters can rarely be built through attraction alone but targeting incentives to

advanced industries likely offers a greater return on the public's investment than incentives to other industries.

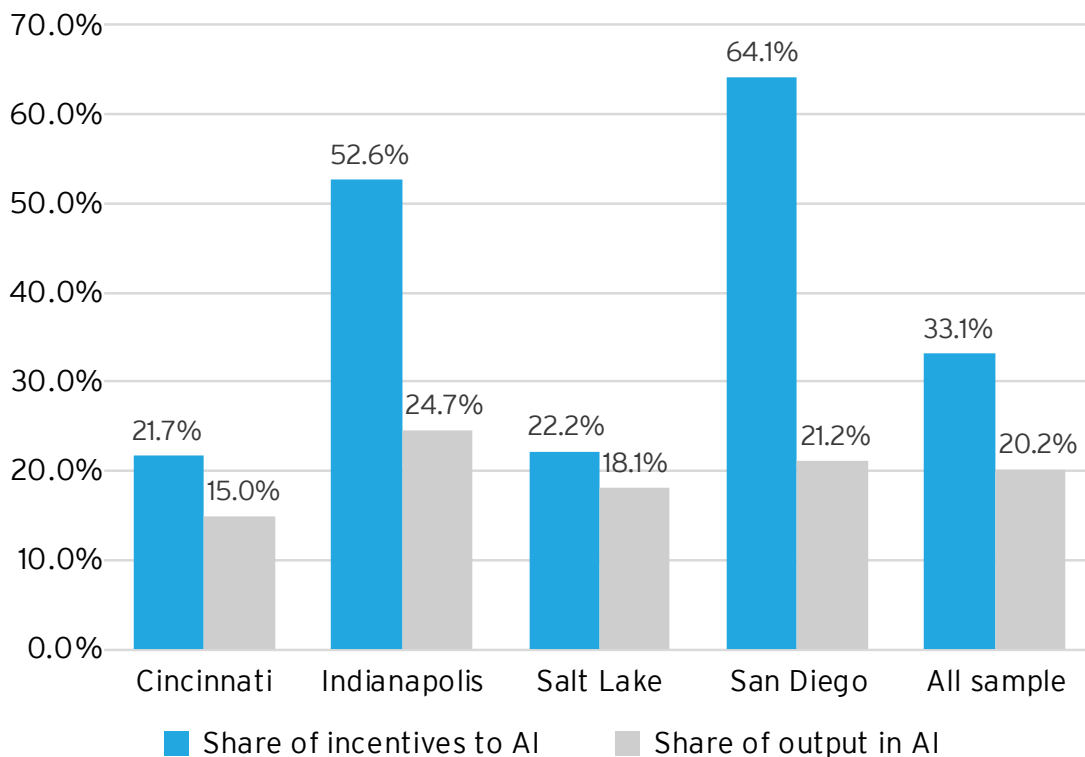
All four cities in our analysis disproportionately target their local and state economic development incentives to firms in advanced industries. Across the four cities, advanced industries account for about 20 percent of economic output but receive about one-third of all incentive spending. In San Diego and Indianapolis, 53 and 64 percent of incentives go to firms in advanced industries, respectively.

State incentive programs target advanced industry companies more frequently than local efforts. About 44 percent of the incentives by

FIGURE 3

All four cities disproportionately incentivize advanced industries

2012 - 2016



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

the governments of California, Indiana, Ohio, and Utah go to advanced industry companies as compared to only 20 percent of incentives provided by local governments. About two-thirds of Utah’s EDTIF tax credits targeted advanced industries, including firms operating in renewable energy (SolarCity) and advanced manufacturing (BioFire Diagnostics). Similarly, about one-third of Ohio’s Job Creation Tax Credit (JCTC) targeted advanced industry companies, ranging from information technology (CDK Global) to biotechnology (Medpace).

BOOST TRADE

Economic theory also justifies a focus on firms and industries that export outside of a local economy. Firms selling outside of a region inject

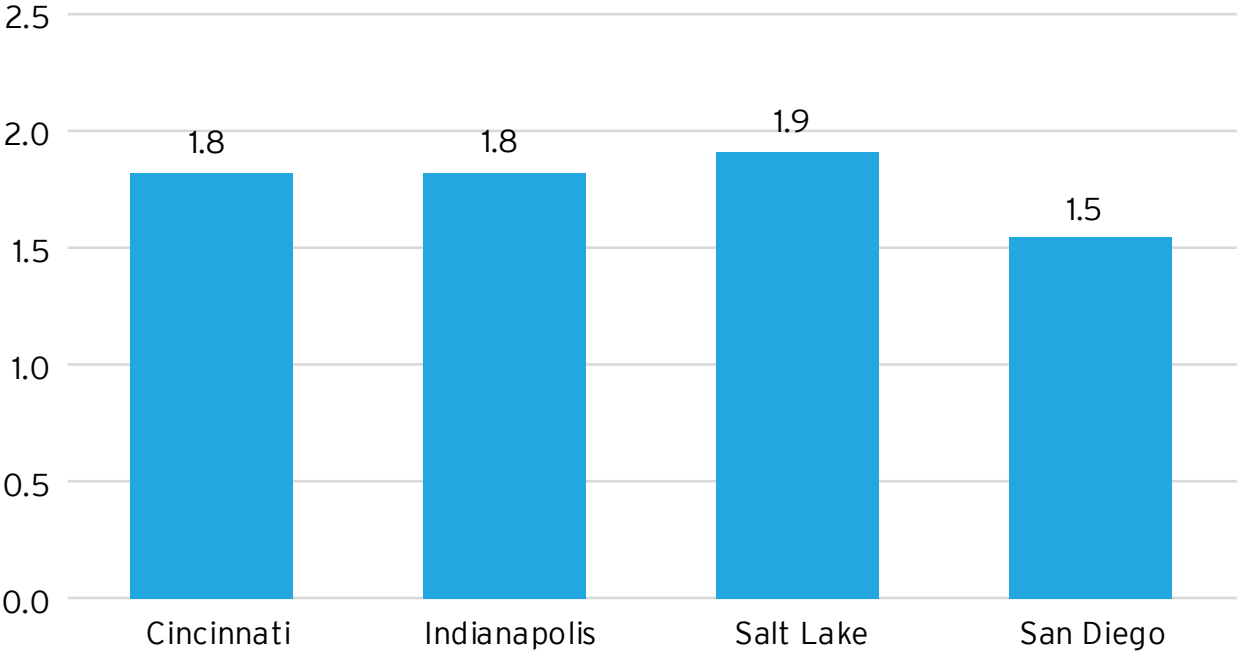
external wealth that, when spent locally, creates a multiplier effect in the local economy, spurring new jobs, growth, and further tax revenue.³¹ Participating in trade also makes metro areas more productive and innovative. Firms that generate revenue from outside their home market must provide goods and services faster, better, and cheaper than global competitors. This process tends to boost productivity and wages.³²

Ideally, to determine whether economic development incentives tend to target firms in export industries, we would collect data on whether the incentivized business exports. But since we lack that information, we segmented those industries that have received incentives and analyzed the extent to which those industries support trade.

FIGURE 4

Incentives are most effective if they boost trade

Average location quotient weighted by incentive amounts for incentivized industries



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

We explore this dynamic in two different ways: industrial location quotients and industrial export intensity. Location quotients measure the ratio of an industry's share of local employment divided by the industry's share of national employment. Location quotients greater than one indicate a city has a relative employment concentration in that industry. In all four cities, those industries that have at least one firm receiving at least one incentive—incubated industries—have a location quotient greater than one, ranging from 1.9 in Salt Lake to 1.6 in San Diego.³³

Similarly, the export intensity of the incentivized industries—that is the share of local output accounted for by goods and services exports—across the four cities is more than twice as

high (25 percent) as the economy as a whole (11 percent).³⁴ For instance, exports account for about 12 percent of San Diego's economy overall but 29 percent of the incentivized industries' output. Similar advantages hold for Indianapolis and Salt Lake. Cincinnati's incentivized industries are more export-intensive (13 percent) than its economy as a whole (10 percent), but only by a few percentage points due that city's disproportionate emphasis on real estate development.

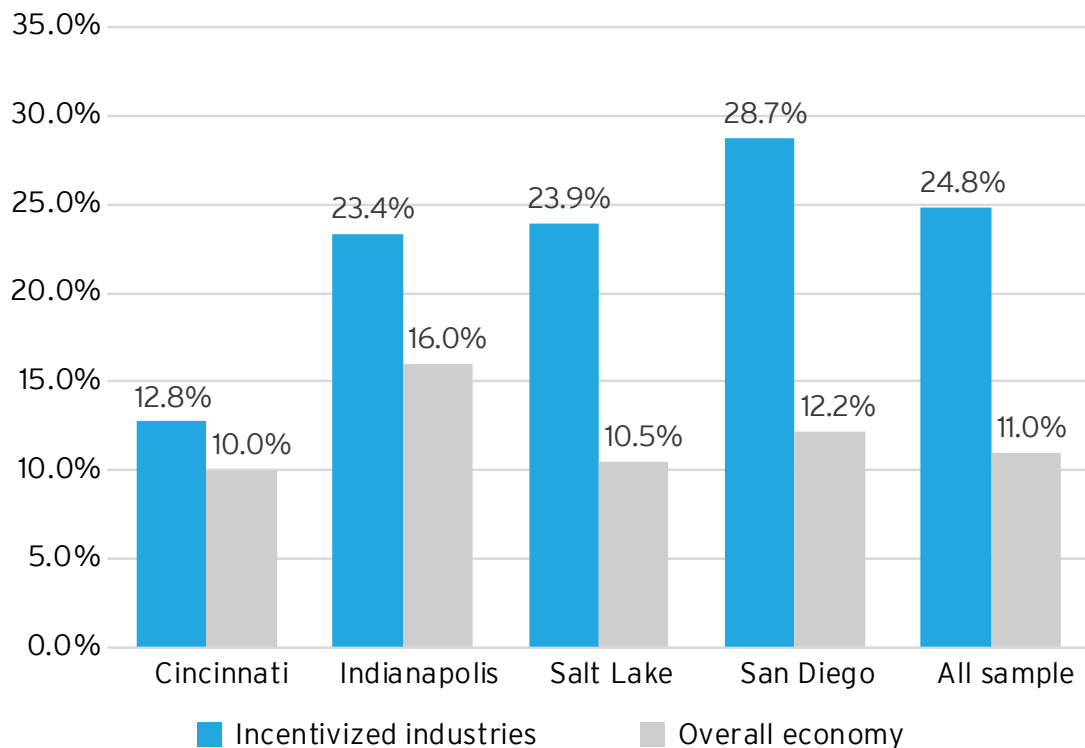
INVEST IN PEOPLE AND SKILLS

The third principle—invest in people and skills—draws on deep evidence that links the skills and capabilities of a region's workforce to the productivity of its economy and the well-being

FIGURE 5

Incentivized industries are more export intensive

Export intensity, export value as a share of economic output



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

of its population.³⁵ It also reflects that a key goal of providing economic development incentives is to create jobs that provide workers with middle-class incomes and living standards.

How well do incentivized industries pay in these four cities? The average earnings in the incentivized industries, weighted by the industry incentive amount, are about \$87,000 per year, 25 percent higher than the \$69,000 in average earnings provided by the overall economy. The wage gap between incentivized industries and the overall economy ranges from 15 percent in Cincinnati to 65 percent in Salt Lake. These observed wage advantages relate directly to the incentivized industries' disproportionate focus on trade and innovation—parts of the economy that

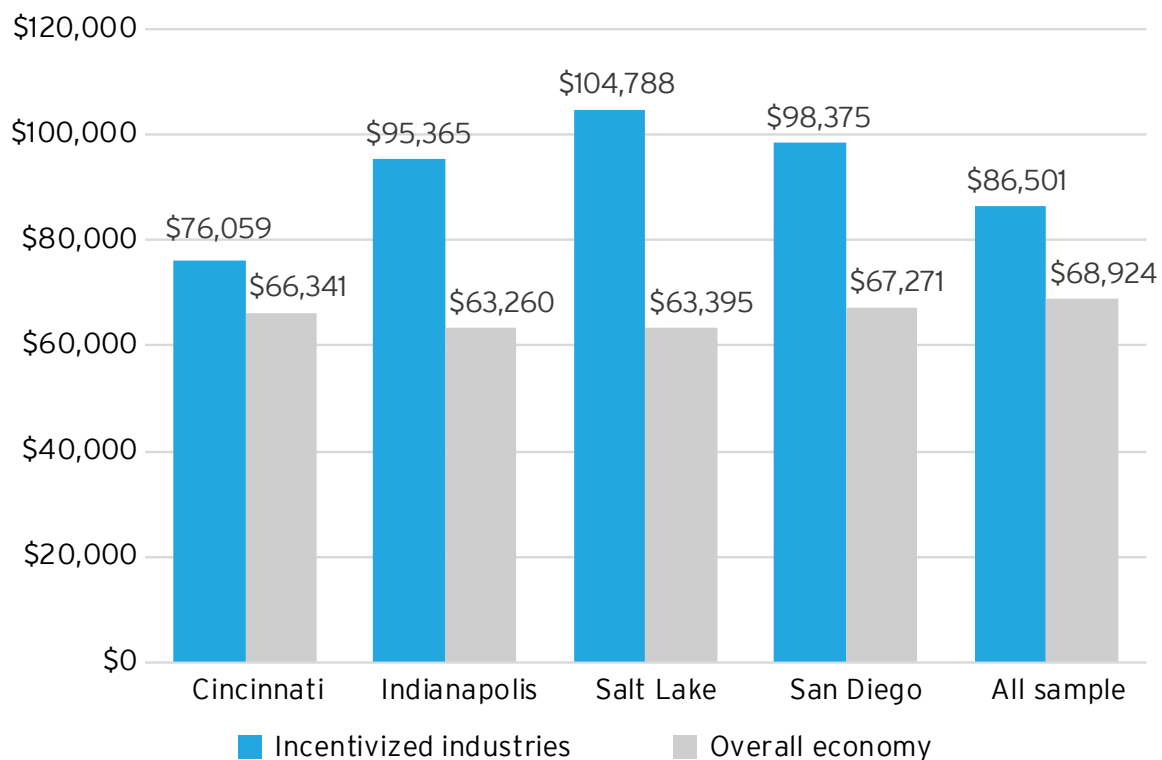
offer higher wages.

Beyond offering high wages, Bartik argues that incentives will be most effective if they lead to hiring of underemployed or unemployed workers.³⁶ Using incentives to lower unemployment improves labor market efficiency and helps lift individuals into economic self-sufficiency, a process that can limit the detrimental human and fiscal costs associated with poverty and economic distress. While our analysis cannot determine whether incentives induced companies to hire previously unemployed workers, we can examine the degree to which incentivized industries employ workers from underemployed groups. Previous research has shown that employment rates among black and Hispanic Americans, for instance, lag those

FIGURE 6

Incentivized industries pay workers higher wages

Average annual earnings per worker, 2016



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

of whites and Asians.³⁷ These patterns hold for these four cities and has led in some instances to intentional policies to spur employment and business opportunities for minority residents through hiring and contracts requirements.

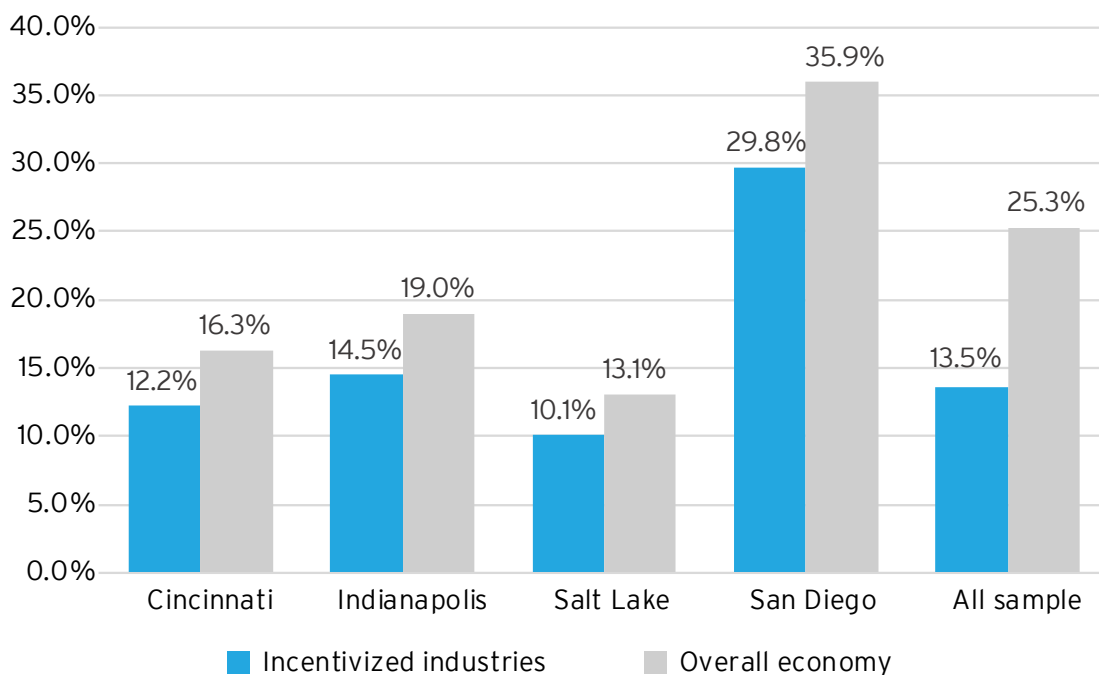
Notwithstanding these well-intended policies, black and Hispanic workers remain underrepresented in industries that receive economic development incentives. Across the four cities, black and Hispanic workers make up about one-quarter of the overall workforce, but only 14 percent of the workforce in the incentivized industries. Local and state incentives in this analysis do target firms and industries that offer relatively good employment opportunities but are not particularly racially inclusive.

A final component of the principle of investing in people and skills involves the role of employers in job training and skill development. A modern labor market reality is that employers continue to demand workers who have levels of skills and training beyond high school. Today, nearly two-thirds of U.S. jobs require at least some post-secondary education or credentials.³⁸ As the skills requirements of existing occupations increase, employers continue to report hiring difficulties. According the Manpower Group, the share of U.S. employers reporting worker shortages in the last year increased from 32 percent to 45 percent, the largest increase of any large nation surveyed.³⁹ Yet, these hiring challenges coincide with a decline in work-based training over the past several decades, from an average of 2.5 weeks per year in 1979 to 11 hours per year two

FIGURE 7

Black and Hispanic workers are underrepresented in incentivized industries

Share of black and Hispanic workers employed in incentivized industries/ overall economy



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

decades later.⁴⁰ In 2011, Accenture found that only 21 percent of employees surveyed had received employer-provided training in the past five years.⁴¹

Against this backdrop of declining employer investment in training and the simultaneous increase in demand for skills, the low share of incentives in this analysis that directly incentivize firms to conduct job training and skill development is notable. Only 7 percent of incentives went to job training in San Diego, the *highest* share in the analysis, followed by Indianapolis at 4.4 percent, and Cincinnati at 1.1 percent. To our knowledge, Salt Lake did not have any incentive programs related to job training. This is not to say that job-training programs are not underway in these communities; they just operate outside of firm-specific economic development incentive programs. That noted, the prominence of incentives within the economic development

toolkit and the urgency of employer skills needs suggests a mismatch that economic development departments should examine closely.

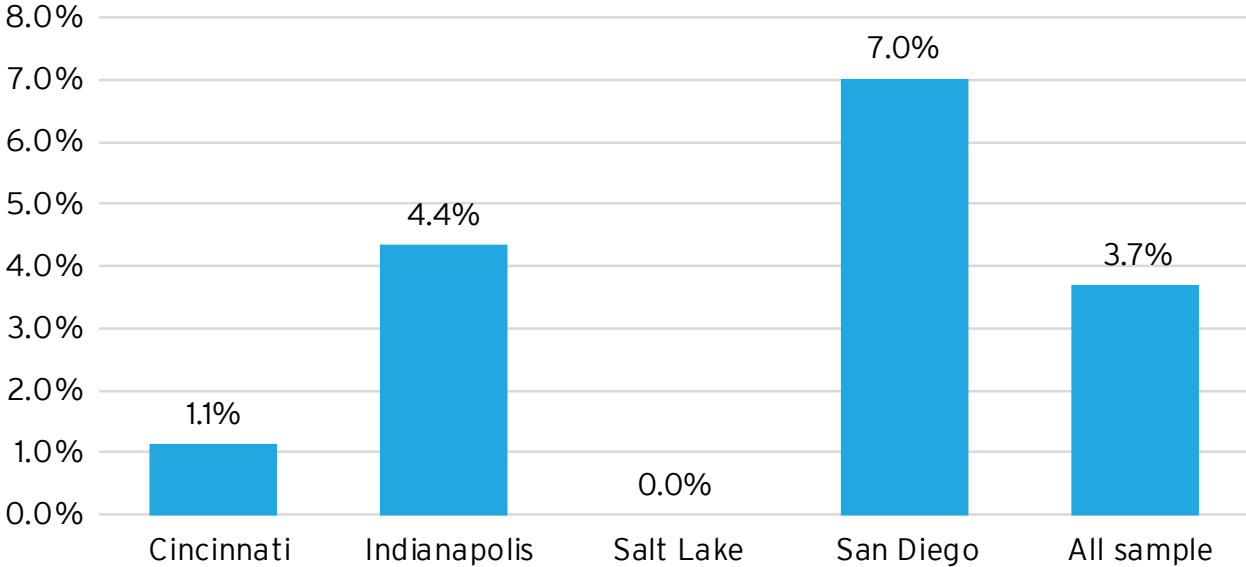
CONNECT PLACE

The final principle is to connect place, specifically neighborhoods that struggle to benefit from broader local and regional growth. Even affluent cities and regions have significant disparities by race and neighborhood. Taking a place-conscious approach to economic development acknowledges that an opportunity structure determined by where one lives does not arise due to market forces or consumer preferences alone, but rather government policies related to zoning, housing development, transportation, and education that diminished the market attractiveness of certain communities, oftentimes communities of color, relative to others.⁴²

FIGURE 8

Job training is not a significant share of incentives

Share of incentives targeting job training



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

The challenges related to neighborhood disinvestment, blight, and concentrated poverty are front and center in local economic development. As evidence, many local governments have merged housing, economic development, and community development into a single department. Common tools like tax increment financing or property tax abatements often have the express intent of incentivizing physical redevelopment in poor neighborhoods. The rationale being that once communities have reached some baseline level of physical redevelopment it makes them more attractive to broader private sector investments. This *physical* redevelopment mandate is somewhat distinct from economic development's goals related to business support and overall economic growth.

Indeed, growth and opportunity within a regional economy is likely a necessary, but not sufficient, condition for addressing neighborhood disparities.

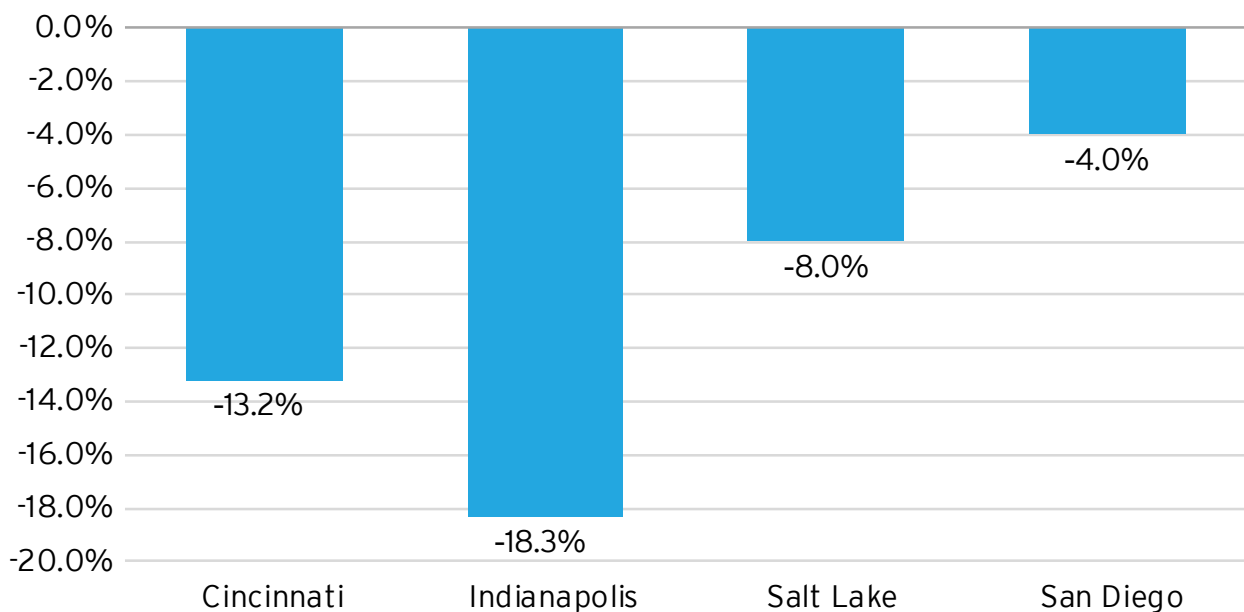
Residents in neighborhoods of concentrated poverty must have a basic level of education and training to fill available jobs afforded by more growth. But even with a supply of good jobs and the requisite skills to fill them, workers must be able to physically access employment. This is becoming more difficult as jobs continue to move further from workers, especially those with lower-incomes. Between 2000 and 2012, access to jobs within an average commute distance dropped faster for poor Americans than for the population as a whole, including in all four of the metropolitan areas in this study.⁴³

The focus on disadvantaged neighborhoods becomes clear in the geographic distribution of incentives in at least in two of the cities. Across all four cities, about 28 percent of the population lives in high-poverty neighborhoods, defined as census tracts with poverty rates exceeding 20 percent. About 57 percent of incentives landed

FIGURE 9

Job growth is not proximate to high-poverty neighborhoods

Change in share of accessible jobs to high poverty neighborhoods, 2000-2012

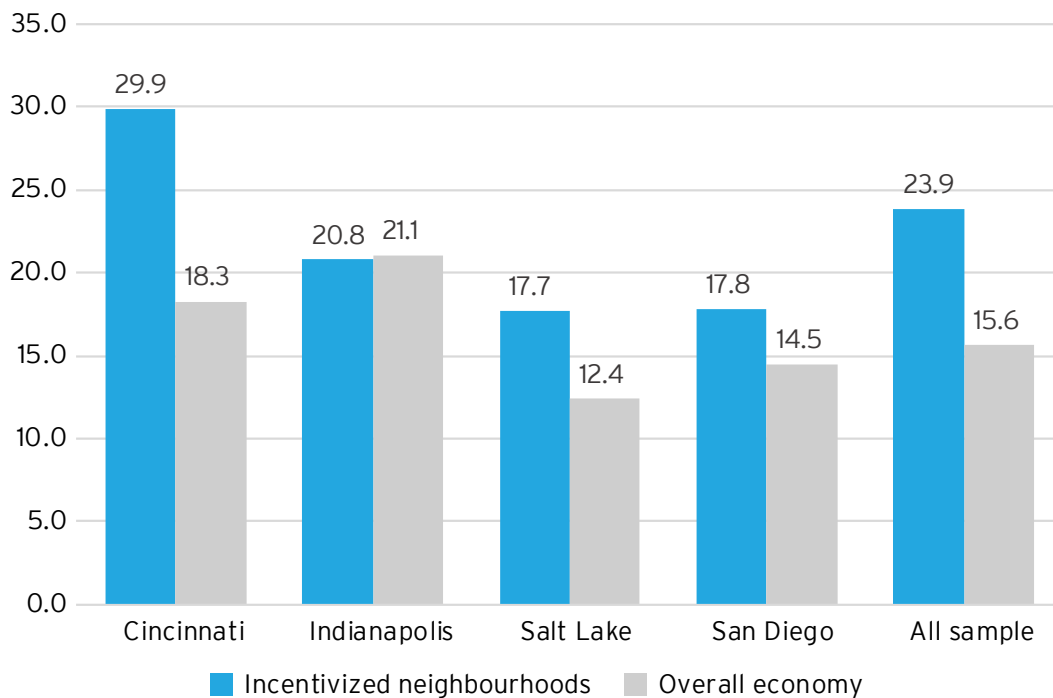


Source: Martha Ross and Natalie Holmes, "Employment by Race and Place: Snapshots of America, Brookings Institution, (February 27, 2017)

FIGURE 10

Incentives target poor neighborhoods in Cincinnati and Salt Lake

Average poverty rate in incentivized neighborhoods/ overall economy, weighted by incentive amounts



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

in communities with poverty rates exceeding that threshold.

However, the sample average masks the fact that incentives go to businesses and developments in high-poverty neighborhoods in Cincinnati and Salt Lake much more so than in Indianapolis and San Diego. The average poverty rate of a neighborhood in which a business or redevelopment receives incentives is nearly 30 percent in Cincinnati and 18 percent in Salt Lake, compared to jurisdiction-wide poverty rates of 18 percent and 12 percent, respectively. By contrast, in Indianapolis, the poverty rate in incentivized neighborhoods is actually lower than in the county as a whole.

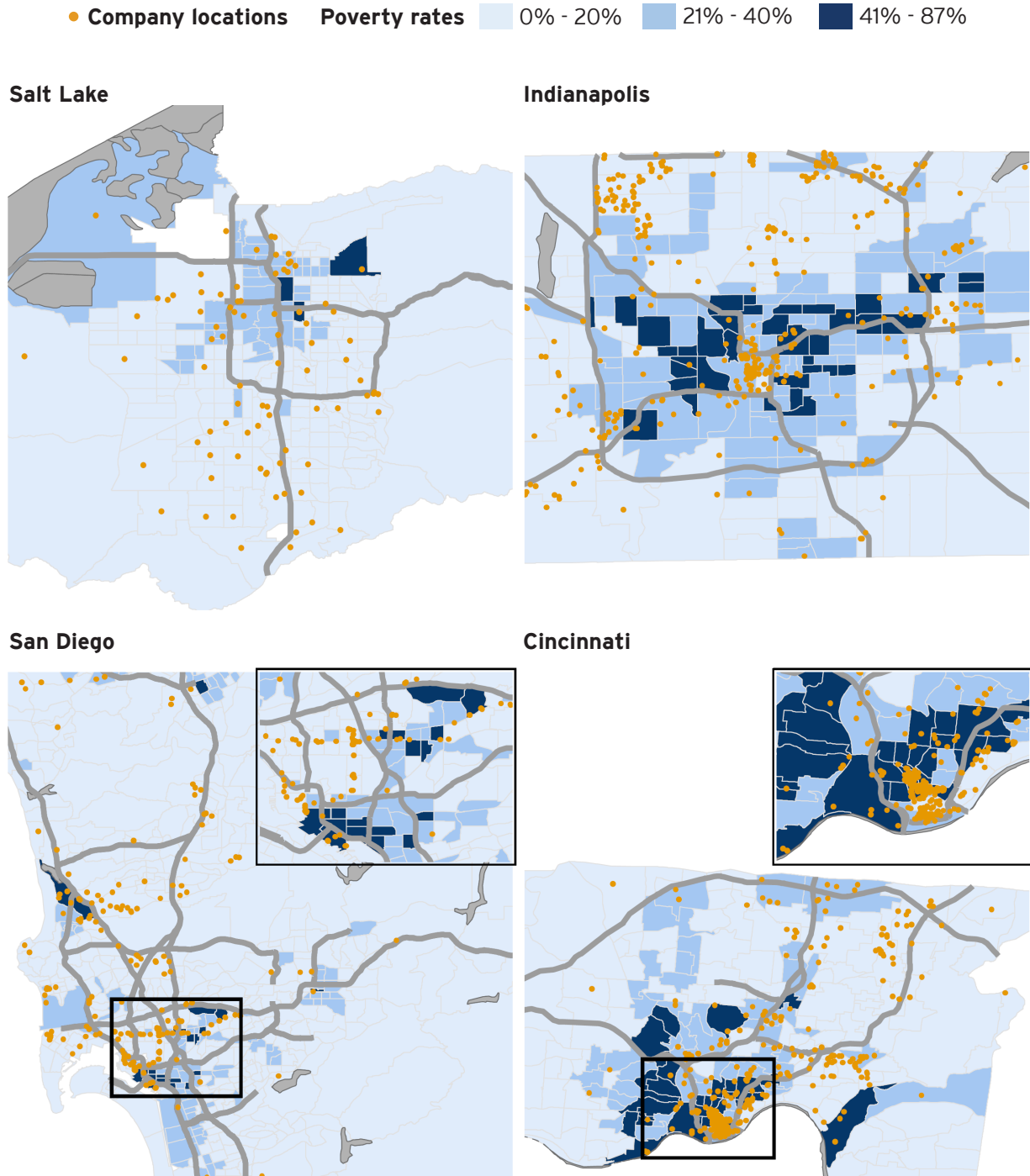
Tax increment financing has been one specific tool aimed at neighborhood revitalization. In the

three cities operating TIFs, they exhibit a clear focus on higher poverty neighborhoods. Of the incentives provided to TIF projects, high-poverty neighborhoods received 86 percent in Cincinnati, 77 percent in Indianapolis and 39 percent in Salt Lake County. In Cincinnati, these incentives have targeted neighborhoods like Over-the-Rhine, which has undergone an economic and demographic transformation.

Notably, our finding on neighborhoods differs from previous studies investigating the geography incentives across broader regions. Good Jobs First has conducted six studies investigating land use patterns and economic development incentives in 13 metropolitan areas. They conclude that the typical subsidized economic development deal incentivizes “economic activity in a way that concentrates poverty at the urban

FIGURE 11

Locations of companies that received state and local economic incentives in four cities



Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

core and rapidly consumes land at the fringe."⁴⁴ Our findings do not necessarily contradict that conclusion. It is entirely possible that economic development incentives provided by the local governments to firms in *central cities* skews

toward more marginalized communities while the regional pattern still advantages suburban and exurban areas with plentiful greenfield land and fewer economic challenges.

VI. Implications

The previous section draws on unique transaction-level information to examine how local and state governments deploy economic development incentives in Cincinnati, Indianapolis, Salt Lake, and San Diego. The analysis fills knowledge gaps in how cities and states target economic development incentives to firms, industries, and communities. Economists argue that better incentive targeting could lead to better incentive outcomes, but little consistent information exists across cities on these basic trends. Yet, across the four cities our analysis reveals a few key patterns, including how incentives disproportionately target:

- Firms in industries that are technology-intensive and export-intensive
- Firms in industries that pay above average wages
- Firms in industries in which black and Hispanic workers are underrepresented, and are rarely directed to firms for job training purposes
- Firms and/or developments located in high-poverty neighborhood in Cincinnati and Salt Lake but not in Indianapolis and San Diego

These findings examine local and state incentives together, which offers policymakers a glimpse of how an entire incentives portfolio aligns with the principles of inclusive economic development. We examine these principles, in particular, because of the strong evidence base for targeting incentives toward innovative and exporting industries *and* toward activities that will benefit disadvantaged populations. Of course, this does not mean that every incentive transaction aligns with all of these principles. Quite the contrary. Local and state governments operate different incentive programs with different purposes, which means there are undoubtedly tensions between some of these principles. The challenge is how to achieve both these goals simultaneously when disadvantaged populations tend to be

underrepresented in the most innovative and advanced portions of the economy.

Equally important is acknowledging what these findings *cannot* conclude. Our study is not an impact analysis. In other words, we are unable to determine whether incentives altered the trajectory of businesses, industries, people, or communities in these four cities, only that incentives were targeted to them. Previous evidence suggests incentives may achieve better outcomes if targeted to firms that export, conduct R&D, and pay high wages, or to communities in which market failures impede development. We have offered new evidence that, at least in these four cities, incentives do align with many of these principles. But we cannot conclude that any successes experienced by firms, industries, or communities are the direct result of incentives or that incentives are the best way to achieve these outcomes given other possible policy interventions. Indeed, there is a substantial body of evidence that incentives—for several reasons outlined in the literature review—are often *not* the most effective way to achieve outcomes related to these four principles of high-road economic development.

Combined with this analysis, a review of the existing literature and discussions with dozens of local economic development officials from over a dozen U.S. cities reveal the following implications for economic development policy and practice.

SITUATE INCENTIVES WITHIN BROADER ECONOMIC OBJECTIVES.

What is the objective of economic development incentives? Broadly, incentives are one policy tool cities and states can place in service of broader efforts to create environments in which firms can be productive and grow in ways that raise living standards for local residents.

But hidden below that broad objective are a series of sub-objectives that vary with each city's local economic and political factors. Cities oftentimes want to use incentives to bolster job creation, but the characteristics of the desired jobs may vary depending on local labor market conditions and the education and skills of the local workforce. Cities may want to use incentives to enhance the tax base but, depending on the fiscal structure, vary in their reliance on property taxes, sales taxes, or income taxes. Cities may want to address neighborhood-level disparities, and therefore the focus on specific neighborhoods may be warranted. And cities may want to bolster a niche in specific industries, and therefore use incentives to favor firms that will enhance industrial clustering.

The notion that incentives should reflect broader objectives may seem obvious, but the reality is that incentive programs often do not meet this basic standard. Part of this is politics; elected officials (mayors, city council members, etc.) at times introduce new incentives divorced from previously agreed upon economic priorities. In other instances, the interests of real estate developers and local chambers of commerce hold considerable sway as local officials introduce or reform incentive tools. And community activists and the informed public play a role as well in lobbying directly to economic development departments or applying pressure to their elected officials. To be sure, private and civic engagement improves the policymaking process, but that reality also complicates the task of addressing stakeholder interests while also aligning incentives with broader economic objectives.

EMBRACE INCENTIVE TRANSPARENCY AND EVALUATION.

Evaluating and publicly sharing outcomes of incentive programs, in turn, ensures that city leaders understand whether their policies are contributing to strategic objectives, offers an evidence base from which to make necessary reforms, and can enhance civic and community trust.

Increased incentive spending has led to calls for high-quality information about its effectiveness. Against this backdrop, there is considerable variation in the capacity and commitment to evaluation. States tend to be further along in evaluation and transparency than municipalities. At the state level, the Pew Charitable Trusts has documented that more than half of states "have made progress in gathering evidence on the results of their economic development tax incentives" and they consider 12 of these states to be evaluation "leaders."⁴⁵

While no similar comprehensive analysis of local governments has been undertaken, our sense is that local governments are operating at a somewhat different point than their states when it comes to evaluation. To be sure, many cities do undertake incentives evaluations, including recent or ongoing efforts in Austin, Cincinnati, Columbus, Kansas City, Philadelphia, and St. Louis. In these instances, evaluations were motivated either by internal economic development department concerns that incentives were not competitive as compared to peers or by external pressure from city councils or community groups.

Our experience is that most (although not all) economic development officials embrace evaluations as a means to improve existing policies and programs, but they remain uncommon. Evaluations require resources, including a baseline level of internal data capabilities and the willingness to sponsor an actual evaluation (oftentimes by an external consultant). Overcoming these barriers requires a local commitment to basic data management and analysis in the spirit of broader data-driven policymaking. As compared to the total amount of money being spent on incentives themselves, the resources needed for tracking and evaluation are quite small, and it seems imprudent to skimp on this marginal cost when the benefits of understanding what works are potentially significant. Indeed, evaluation and monitoring is a critical component of implementing best practices like clawbacks, which recoup incentives if companies do not meet their commitments.

The challenge is that economic development departments have resource constraints. One way to raise resources is to institute a fee for firms that apply for incentives that specifically supports research and evaluation expenditures.

Local governments can draw on the deeper body of research on state incentives evaluation to identify best practice. The Pew review of leading state incentive evaluations observes three key elements:

1) Develop a plan that institutionalizes the process of regular evaluation and monitoring;

2) Measure the impact of incentives on the local economy, including estimates of if/how incentives changed firm behavior (see the National Conference of State Legislatures' state tax evaluation [database](#) for examples); and

3) Inform policy choices by city councils and other local officials based on the findings of the results.⁴⁶

Further investments in data tools not only support backward-looking evaluations, but also forward-looking incentives targeting (see sidebar).

ALIGNING ECONOMIC OBJECTIVES WITH TRANSPARENT INCENTIVES IN AUSTIN

The city of Austin offers a promising local example of how to align incentives with broader economic objectives, and then refine those incentives using transparency and evaluation. Austin has enjoyed an incredible decade of economic growth. Among the 100 largest metro areas, Austin topped the Brookings Metro Monitor's combined index of employment, GDP, and entrepreneurship growth between 2005 and 2015. These successes, largely driven by a vigorous innovation economy, accompany new challenges: rising housing prices, traffic congestion and, most pressingly, economic and racial disparities.

Today, Austin maintains dual priorities related to growth and opportunity, and reflect those priorities in its economic development incentives policy, known as [Chapter 380](#). At one level, incentives reflect an industrial diversification strategy that safeguards Austin's economy against massive layoffs during unexpected downturns in key industry sectors. The fourth iteration of the region's Opportunity Austin strategy identifies several target industries, each of which receive special weight when determining the amount of incentives the city chooses to

provide to a particular project. Moreover, the city gives extra weight to firms that agree to collaborate with local schools or civic groups in service of a citywide goal to bring 40,000 children out of poverty.

The city codified these criteria in a firm-based incentive scorecard (Project Scoring Matrix) and evaluates each potential transaction using [LOCI](#), an online fiscal impact tool developed at the Georgia Institute of Technology, to evaluate the merits of every potential incentive transaction based on an agreed upon set of economic, fiscal, and social criteria. Projects must meet all minimum criteria and score at least 60 points in order to receive a performance-based contract.

Overall, the Austin Economic Development Department's [criteria](#) include the following:

- **Overall economic and fiscal impact:** Measuring the size of net profit to the city and the level of desirable public benefits.
- **Linkages to the local economy:** Assessing whether the project is

a targeted industry, making use of underutilized labor force or office space, creating significant contracting opportunities for local firms including small and disadvantaged businesses, filling a hole in the Austin economic base, seeding new industry clusters, or competing for resources with existing firms.

- **Infrastructure impact:** Determining whether the project will make a disproportionate demand on Austin's infrastructure.
- **Character of jobs/labor force practices:** Analyzing the share of local hires, average wages paid as compared to local and industry averages including: distribution of job categories and wages within the overall structure, job training,

education funding, opportunities for employee advancement, and the company's policies toward diversity in hiring and promotion.

- **Quality of life/cultural vitality:** Assessing the company's cultural outreach program and company's policy toward employee volunteer/charitable efforts.

Better targeting offers better public returns. The city [claims](#) a 239 percent return on investment from the incentives it has provided to Austin-based companies. Understanding that firm-based incentive scoring is one promising way to standardize targeting, officials in Kansas City have adopted a similar approach based on the Austin model.

For more information: <http://www.austintexas.gov/economic-development-compliance>

Source: City of Austin Economic Development Department, "Annual Report" <http://www.austintexas.gov/edims/document.cfm?id=246430>); Amy Evans, "More Bang for the Buck?" *Shelterforce* (February 4, 2016); Christiana McFarland, "The New Equity Imperative for Local Economic Development," *CitiesSpeak* (March 3, 2016)

A commitment to evaluation requires a simultaneous commitment to transparency. Greater incentives transparency not only prepares cities to evaluate, but it also can enhance local trust and engagement among community stakeholders. Community advocates and government watchdogs have been calling for greater incentives transparency for several decades, but local governments have lagged their state counterparts in providing timely, accurate, and widely available information about the effectiveness of incentives tools. In a recent review of the 85 incentives programs in 50 localities, Good Jobs First found that about half of those programs have basic recipient information posted online.⁴⁷

The reality is that activists and neighborhood groups in local communities are demanding greater transparency. But even if they were not, a new accounting rule, Government Accounting Standards Board Statement No. 77 on Tax Abatement Disclosures, requires that local (and state) governments disclose the amount of revenue they are forgoing through tax incentive programs. Most cities will begin reporting their GASB No. 77 data in 2018.

While the GASB requirement will force cities to provide a top-line number for incentives spending, local governments can and should go further by publicly posting data online about their incentives activities. Increasingly, cities are publicly

disclosing data on municipal systems. These “open data” efforts serve as both a way to ensure public accountability but also to crowdsource analysis on performance. Incentives are a particularly politically controversial municipal issue, to be sure, but there are benefits for local governments that embrace greater transparency. While it requires a willingness of policymakers to open themselves to the possibility of poor results and critiques, accessible incentives information would likely attract researchers from local policy institutes or universities to support evaluation. We have observed that, simply to get access to local incentives data, academic economists have offered to conduct pro bono evaluations, which reveals both how hard it is to gather incentives data and the demand for rigorous research to better understand what incentive policies work best.

Per Good Jobs First, online disclosure best practices offer several key pieces of information, including the incentive recipient (name, address), amount, duration, projected jobs created, actual jobs created, and wage levels for created jobs. Several cities, ranging from Austin to New York to Memphis, have built user-friendly interfaces from which the public can download data for analysis.⁴⁸

TARGET INCENTIVES TO ENHANCE PRODUCTIVE, INCLUSIVE GROWTH.

Rigorous evaluations, enabled by more transparency, can yield greater knowledge about what works given a city’s local incentive offerings, tax structures, and economic conditions. Armed with this information, cities can make more effective decisions about how to target incentives to their highest and best use. Indeed, limiting incentives to only those companies or activities that can contribute to broad-based economic opportunities is one way to ensure that incentives align with local objectives and maximize cost-effectiveness.

Three targeting principles can advance more productive and inclusive economies:

- **Incentivize opportunity-rich firms.** Firms and industries differ in the earnings and career pathways they offer. Reflecting this reality, cities as different from each other as Austin, Louisville, and Portland, among others, have instituted wage thresholds as a key criterion for determining whether to offer firms incentives. Furthermore, industries not only vary in how much they pay but also the degree of earnings mobility they provide entry-level workers. Richard Shearer and his co-authors have identified that these “opportunity industries” offer a greater chance of upward mobility, and therefore warrant special attention from economic developers.⁴⁹ As this analysis has shown, firms and industries that export outside of the region and drive innovation should also be considerations when providing incentives as cities seek to build and maintain industry strengths. These targeting criteria can help ensure that public resources are not spent subsidizing low-opportunity industries and activities.
- **Incentivize firms to provide more opportunity.** This principle acknowledges how publicly provided incentives can influence private sector decisions that enhance opportunity, particularly for marginalized groups. This can take two forms. First, for tax incentives such as credits or abatements, the transaction between the city and the company can include more employer requirements in order to receive the tax relief. For instance, in exchange for property tax abatements, Prosper Portland, the city of Portland’s economic development arm, has shifted to equity-focused, co-developed public benefit agreements with employers in which they commit to opportunity-enhancing activities such as hosting job fairs and career days, partnering with local schools, reserving internship slots for disadvantaged youth, and supporting other business creation through participation and sponsorship of local incubators (see sidebar).

Second, cities (along with states) can offer incentives that support companies through customized services such as job training, technology adoption and extension, and entrepreneurship mentoring and networking. Local government investment in these types of customized services, whether provided directly by the city or more often through partnerships with civic or private providers, moves economic development activities away from simply altering the physical location of the firm through the tax code to actually enhancing the productivity of businesses and workers.⁵⁰ A review by Timothy Bartik suggests that these types of customized services offer a much better return on investment than traditional tax incentives like job creation tax credits or property tax abatements.⁵¹ Cities are experimenting with promising models. Cuyahoga County's SkillUp initiative, for instance, helps firms define their skill needs, creates plans to train employees, and connects them with providers of training. The program has had promising results: Workers enrolled in it had a median wage increase of about \$3,000, and the greater earnings contributed local tax revenues that were double those of the public investment in the program.⁵²

- **Incentivize firms with place in mind—from region to neighborhood.** For several reasons, place matters for economic growth and opportunity, which in turn has implications for incentives targeting. The first is regional in nature. Local governments that join regional agreements that outlaw jurisdictions from using incentives to poach businesses from each other will ease the pressure to subsidize firms that are simply moving jobs from one part of the region to another. Dayton, OH and Denver, CO are both examples of regions that have effectively brokered intraregional incentive ceasefires.⁵³ Moreover, when employment opportunities are physically

isolated from workers, it reduces the productive potential of the regional economy by undermining efficient matching of openings with workers who would provide the best fit. Conversely, individuals' geographic proximity to employment centers increases their likelihood of employment.⁵⁴ Site selection decisions, therefore, ought to consider how workers and communities will access the new source of employment. Incentivizing sites for corporate relocations or business expansions in the context of regional transportation, land use, and housing policies could bring more spatially efficient growth.⁵⁵

The second reason is neighborhood-based. Incentives will likely remain necessary to correct for market failures that impede private sector activity in neighborhoods suffering from concentrated blight and distress. Yet, evaluations of many place-based efforts have been disappointing because local residents have not always benefited even as the physical and business environment change around them.⁵⁶ For development to benefit neighborhoods and residents, members of the community must be engaged in the process and prepared to benefit from new opportunities. Successful neighborhood economic development involves not only physical revitalization of buildings but investments in people to help them reach their potential as workers or entrepreneurs. Incentives can support place-conscious strategies that target economic opportunities for the people and businesses within them. The city of Chicago has launched a Neighborhood Opportunity Fund with this intention. Supported by revenues from downtown development, the fund reinvests resources to business owners in neighborhoods on Chicago's South and West Sides, encouraging small business to expand and hire.⁵⁷

TARGETING INCENTIVES IN PORTLAND: FROM FIRM TRANSACTIONS TO FIRM RELATIONSHIPS?

Despite a strong recovery from the Great Recession, Portland is experiencing wide disparities in employment, income, and wealth between white communities and communities of color. In the context of this growing divide, Prosper Portland's 2015-20 strategic plan required the agency to think deeply about the evolution of its work to better serve and benefit the entire community.

As the economic development arm of the city of Portland, Prosper Portland plays an integral role in the city's economic growth. Its five-year strategic plan calls for an intentional focus on addressing the growing gaps within the city to ensure that benefits from physical and economic growth are equitably shared among all communities. The agency's vision is a Portland that is globally competitive, equitable, and healthy. Recognizing the need for change, Prosper Portland has shifted its strategic direction, adopted an agency-wide equity statement and practices, repositioned key programs, and initiated new approaches specifically focused on meeting the needs of diverse Portlanders, with the overarching goal of building an equitable economy.

One such program, the Portland Enterprise Zone, incentivizes firms to invest major capital outlays and to create or retain quality jobs by allowing for property tax exemptions designed to encourage existing and new businesses. State of Oregon statute also empowers localities to impose certain requirements to target the incentive to firms, and Portland has chosen a "public benefit agreement" as the vehicle. Prosper Portland defines a public benefit agreement as a legally binding agreement between a governmental organization and a business with the goal of creating shared value and

partnership, where the competitiveness of a company and the health of the public are interdependent. This is distinct from a community benefit agreement, which is typically designed as a place-based agreement.

The benefit agreement outlines the level of incentive the firm will receive and the expected outcomes. Among other factors, these outcomes include:

- Threshold levels for **wages** (\$15 per hour within one year) or **total compensation** (\$20 per hour within one year)
- A **business procurement plan** that outlines good faith efforts to localize supply chain purchases, specifically from business owned by people of color or business owners located in designated neighborhoods
- A contribution of 15 percent of tax savings to a **Workforce Training and Business Development Fund (WTBDF) and Employee Support Fund (ESF)**

Managed by Prosper Portland, the WTBDF provides the economic development team with a flexible fund that supports programming to build an equitable economy and that enhances economic and social opportunity through partnerships with existing systems related to filling worker skills gaps, business technical assistance (e.g. lean consulting, business planning, etc.), and other firm-specific needs. The fund can be responsive to the needs of *existing* businesses in addition to providing incentives for new entrants. The ESF is similar in its flexibility but it specifically allows Prosper Portland to work with employers to address

two of the most significant barriers to employment for lower income workers: transit and child care support.

In addition to creating jobs, making significant capital investment, and buying locally, recipients of property tax exemptions are also required to make additional investments in Portland toward community economic development activities. For instance, companies like Jaguar Land Rover have committed to several activities:

- Reserve internship slots for high school and college students
- Support the development of 10-12 technology-based startups per year through the firm's investment in a technology incubator (including reserved slots for entrepreneurs from underrepresented communities)
- Host events at Jaguar facilities in partnership with local non-profits and social justice organizations
- Engage with technology clubs in local high schools

While the list may seem long, Prosper Portland argues that these commitments are actually in the enlightened self-interest of a firm like Jaguar Land Rover as they improve the quality of local talent, ideas, suppliers,

and community. The challenge is that firms struggle to engage with what can be a complex thicket of community organizations and potential partnerships that service these shared commitments. Prosper Portland engages with dozens of non-profits related to entrepreneurship, workforce development, education, and social justice and community building so businesses can quickly find the right partnerships. This significant shift toward building social equity practices into all of its efforts has taken several years but has now positioned the organization to be a bridge between firms and the broader ecosystem of community players that they need to remain productive and competitive.

Moving economic development toward this bridging function may ultimately bring more shared value to both employers and communities. Rather than a one-off tax break, this concept suggests that connecting firms to a broader system of supportive business and social groups can yield higher profits while bringing more economic opportunities to struggling families and communities. It represents a shift from transaction-oriented economic development to a more relationship-oriented economic development. Executing this approach, however, requires locally rooted partnerships and organized stakeholders that can actually deliver shared value to businesses, workers, and communities. This is the role that Prosper Portland aims to fill.

For more information:

<https://prosperportland.us/portfolio-items/portland-enterprise-zone/>

<https://prosperportland.us/social-equity/>

Source: Author's own communication with Prosper Portland staff

VII. Conclusion

This report draws on unique transaction-level information to examine how local and state governments deploy economic development incentives to businesses in Cincinnati, Indianapolis, Salt Lake, and San Diego. Across these four cities, this analysis reveals that economic development incentives align with several key principles of high-road economic development but fall short on others.

On the positive side, economic development incentives in these four cities disproportionately go to firms in industries that are both technology-intensive and export-intensive, two notable dynamics that drive productivity and wage growth. Partly due to this, incentivized industries pay about 25 percent higher wages than the economy as a whole across the four cities.

Yet, economic development incentives in these four cities do not always align with tenets of economic and racial inclusion. The same innovative and tradable industries that incentives target because of their high wages and strong fundamentals are often inaccessible to workers of color due to skills and other structural barriers, a finding reinforced by the fact that incentives infrequently promote employer-based job training in these four cities.

While not a full analysis of economic impact, our findings offer some implications for economic development incentives policy and practice. First, local and state leaders should ensure incentives reflect local and regional economic objectives. This census of incentives provides one guide for how cities can situate their incentives practices within four principles of inclusive economic development. Second, localities must commit to making incentives information publicly transparent, and then rigorously evaluate their impact on firm outcomes to determine what works. Clearer criteria and more effective targeting should reserve incentives only for those firms that will advance broad-based opportunity, either by incentivizing opportunity-rich firms and industries, incentivizing firms to provide workers more opportunity, or by addressing place-based disparities in opportunity.

Fortunately, we observe progress toward a more responsible and rigorous incentives approach in many U.S. cities, signaling a nascent but necessary progression in the practice of economic development. We hope this report can help provide insights and tools to local leaders as they undertake that important and needed evolution.

Appendix

Table A

List of incentive programs
2012 - 2016

City	Source of fund	Type	Amount (thousands)
Cincinnati	local	Project TIF	\$119,787
		Job Creation Tax Credit	\$70,131
		LEED Community Redevelopment Area Abatement	\$57,301
		TIF Grant	\$25,173
		Property Investment Reimbursements	\$24,021
		Below Market Rate Sale	\$18,034
		Capital Grant	\$15,307
		Other City Grant	\$14,600
		District TIF	\$2,105
	state	Job Creation Tax Credit	\$150,506
		Ohio Historic Preservation Tax Credit	\$99,739
		JRTC-R Job Retention Tax Credit Refundable	\$22,000
		Research & Development	\$9,000
		Incumbent Workforce Training Voucher	\$7,398
		Third Frontier Research & Development Project	\$3,338
		Roadwork Development	\$1,811
		Legacy Projects	\$1,450
		Industrial Training Grants	\$903
		Tech Target Investment Program	\$750
		Local Government Innovation Fund	\$532
		Workforce Training Grant	\$527
		Business Assistance Programs	\$462
		Economic Development Contingency Funds	\$400
		Rapid Outreach Grants	\$350
		Business Incentive Grants	\$325
		Energy Programs	\$141
		Small Business And Export Assistance	\$115
		Career Exploration Internship	\$18
		Energy Sector Training Grants	\$17
		Vacant Facilities Grant	\$7
Global Markets	\$2		

City	Source of fund	Type	Amount (thousands)
Indianapolis	local	Abatement	\$124,111
		TIF - Grant	\$29,060
		Community Revitalization Enhancement District Tax Credit	\$1,644
		TIF - Infrastructure	\$255
		IT Equipment Tax Exemption	\$-
	state	Economic Development for a Growing Economy Tax Credit	\$382,271
		Skill Enhancement Fund	\$26,684
		Hoosier Business Investment Tax Credit	\$24,637
		21Fund	\$10,883
		Industrial Development Grant Fund	\$4,310
		21Fund_SBIR_STTR	\$825
Salt Lake	local	TIF - Redevelopment Area	\$214,096
		TIF - Economic Development Area	\$43,896
		TIF - Community Development Area	\$23,536
		TIF - Urban Renewal Area	\$1,458
	state	EDTIF Tax Credit	\$140,934
		Life Science Refundable Tax Credit Awards	\$30
San Diego	local	Business Cooperation Program	\$1,249
		Storefront Improvement Program	\$609
	state	Tax Credit	\$44,980
		Employment Training Reimbursement	\$3,446

Source: Brookings analysis of data from city of Cincinnati, city of San Diego, Indy Chamber, Salt Lake County, Indiana Economic Development Corporation, Ohio Development Services Agency, and Good Jobs First

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