

Economic Development Incentives

An Introduction to Incentives in the United States



David Hickey, Managing
Director

Jason Hickey, President & CEO

HICKEY
A NEW ERA IN SITE SELECTION

As businesses consider investing in the United States, there are many factors to assess when evaluating where to locate facilities and operations. Economic development incentives (also commonly referred to as business incentives) may be one of those factors because such incentives have the potential to provide financial support to minimize upfront costs and speed up the timeline to profitability. However, economic development incentives are typically tied to specific projects, and incentives are not necessarily offered for all projects.

If offered, incentives can vary widely by type and amount, the terms and restrictions on incentive packages, and the level of government administering the program, among others. These programs can help a foreign-owned company establish operations in the dynamic U.S. economy and facilitate key partnerships, but navigating the process can be challenging. Economic development incentives are typically the result of an ongoing conversation with a particular location, and companies interested in exploring options for incentives packages will likely get the most useful information after narrowing potential location options to a short list.

When companies first enter the United States, they should manage their expectations for incentives, as the value varies based on the scope and size of a project, the location, and other mitigating factors. As businesses evaluate their investment projects, it is important to assess incentive opportunities

accordingly. Although incentives can be of significant value, it is critical to remember that incentives themselves should not lead the location decision process but remain a necessary part of the overall criteria utilized when making a final site selection decision.

“Economic development incentives” is a term that describes an array of financial tools and technical resources available to government agencies, economic development organizations, and utilities, along with other similar entities. These incentives can be utilized to support the recruitment and retention of businesses in U.S. communities in exchange for the job creation and financial investment that those businesses will bring. These incentives may come in different forms to deliver assistance for businesses, including credits, rebates, and exemptions for certain tax liabilities; direct grants in the form of cash and forgivable loans; financing and aid for infrastructure and site development; loan support; and funding for job training initiatives and programs such as green technologies and sustainable practices.

To effectively evaluate and secure economic development incentives, businesses must conduct proper research and due diligence to identify and understand the true value of



relevant incentives (and the requirements of the associated commitments going forward). Just as the value, structure, and nature of economic development incentives vary across the country, so too do the rules and regulations which guide them. Having a strategic approach and action plan is vital to ensure the best outcome for the business in both the near and long term.

When evaluating these opportunities, it is also important to review whether the investment is in an urban or rural community. As economic developers develop their tools and resources for businesses, the approach, commitments, and value opportunity changes.

The following chapter will guide businesses through the economic development incentives process and discuss many of the related best practices that companies deploy in the United States to secure and optimize such incentives.

The Partners

Economic development incentives in the United States are typically delivered through the creation of public-private partnerships that create bilateral or multilateral legal relationships between the recipient business and other prospective stakeholders. While the U.S. federal government offers some business incentives, incentives are most prominently managed by state-level government agencies, local-level jurisdictions, and the providers of utility services (together referred to as economic development organizations, or EDOs). EDOs seek to attract and retain businesses within their jurisdictions. Typically, but not always, EDOs will collaborate to create a comprehensive incentives package to deliver a solution best fit for the prospective company.

State Governments

State governments are a common partner for business incentives, as state legislators frequently adapt existing programs to implement policies and programs that support economic development within their borders. State incentives programs are typically in the form of tax incentives, discretionary cash grants, and financing assistance.

Local Governments

Counties and municipalities have varying authority and discretion across the United States when it comes to incentives. Because these jurisdictions are the ones most directly impacted by job creation and capital investment, the incentives offered at the county and municipality level typically leverage the ability to offer consumption tax exemptions, property tax abatements, tax increment financing, and job training funding.

Utility Providers

As a key resource for economic development in their area of jurisdiction, utility providers are increasingly deploying incentives to support growth and retention, particularly for industrial, logistics, and data center projects. These programs, as discussed later in the chapter, are likely delivered through direct infrastructure assistance, rebates on energy efficiency, renewable energy, and sustainability investments, as well as reduced power rates for certain users.

Federal Government

The federal government can provide support for businesses through funding and financing support, which is typically delivered in conjunction with incentives offered by a state, county, or local jurisdiction. These programs range from financing for small businesses, grants for infrastructure and economic development purposes, and workforce training and targeted employment programs, among others.

Types of Economic Development Incentives

It can be overwhelming for a business to consider all potential opportunities for economic development incentives in the United States. Although not intended to be an exhaustive directory of every incentive option, this section provides a summary of the most common types of incentives that may be available for businesses. As companies work with the respective EDOs, the organizations will propose a tailored incentives package based on discussion and negotiation with the company tied to the specific nature of the proposed project. These proposals are developed and designed by EDOs to optimize an incentives solution for the business. The ultimate mission for incentives is to deliver the right support for a company to have the confidence and business case to make an investment.

Corporate Income Tax Incentives

Each state and local government approaches corporate income taxes in its own way (for more information on taxes in the United States, see [SelectUSA Investor Guide](#), Chapter 4: Taxes), and accordingly, many states and communities may also provide credits, rebates, and refunds of the effective taxes that a company may owe. These types of corporate income tax incentives are often tied to a commitment by the company to create a certain number of jobs and/or make a significant capital investment.

When assessing a corporate income tax incentive, critical factors to evaluate include the tax liabilities created by the project and the company's operation in that particular taxing jurisdiction, the time period of the incentive, whether the tax credit can be carried forward, and whether the incentive is refundable. On the latter, when a tax credit is considered refundable, the company will be able to capture the value of the incentive regardless of

whether the company has an actual tax liability. For example, if the tax credit is worth \$100, and the business only has \$50 in tax liability, the remaining \$50 will be provided in another form, which is typically in cash. If the program is non-refundable, in contrast, the business would need to have \$100 of effective tax liabilities in order to capture the full incentive value.

Consumption Tax Incentives

Throughout the United States, government entities often levy varying consumption taxes, commonly referred to as a sales and use tax. Depending on the state and local community, these taxes can differ significantly – not only on the tax rate, but also with respect to the types of goods and services that are taxed.

To recruit businesses and drive investment, economic developers may leverage exemptions of these taxes through incentives. It is therefore vital for businesses to understand the specifics of their investments, particularly equipment, to effectively evaluate the opportunity. Some states may also provide exemptions for certain expenditures, such as industrial machinery. Businesses should understand which goods and services are taxable in the respective jurisdiction, the timing of the investments, depreciation schedules, and filing requirements, among other considerations in order to effectively evaluate the true value of these types of incentives.

Workforce Tax Incentives

Many state and local governments levy taxes on employment, primarily through payroll taxes. In those jurisdictions, EDOs may be able to offer incentives that would reduce and/or eliminate this tax burden on businesses. These programs can also be delivered as a post-performance incentive, whereby the respective tax jurisdiction provides a refund of the payroll taxes paid by the business as long as the company has met agreed-upon project commitments.

Grants

Businesses may be awarded grants for economic development projects in many jurisdictions. Grants come in many different forms and from a variety of entities, including the federal government, state agencies, local communities, and other regional economic development stakeholders.

Historically, grants would often come at the outset of a project to drive the investment forward. Today, these programs have transitioned to the post-performance model to reduce the upfront cost to the taxpayer. A post-performance grant also poses less of a risk to the business concerning “clawbacks” (repayment) if the project does not fully develop as committed.

Infrastructure

Investing in critical infrastructure is a vital aspect of successful economic development strategy. EDOs often have tools to encourage infrastructure buildout, such as support for site work, water and wastewater, transportation, electricity, and broadband.

To support a project, economic developers may be able to leverage resources and funding from federal and state government sources, such as Community Development Block Grants and the Economic Development Administration (EDA). While these programs often do not provide direct financial support for the business, this indirect funding may be used to support and assure the availability of the vital infrastructure needed for a project, as well as for future development.

Utility and Energy Incentives

To help drive investment into their respective jurisdictions, many electric, gas, and other utility companies have established their own internal economic development programs. Utilities commonly partner directly with businesses and state- and local-level EDOs to provide assistance for investment projects. The tools and resources used to do so may include electric and gas infrastructure support, such as transmission and extensions, as well as industry rate riders. Rate riders are incentives which provide a reduced power rate for economic development projects, delivering extensive cost savings over the near and long term.



Many government agencies and utilities also leverage programs to support green and sustainable investments. These programs may include rebates for investments in energy efficiency, such as lighting upgrades, and incentives for the deployment of renewable energy technologies.

Lending and Finance

Adequate and qualified financing is crucial for businesses investing in the United States, especially during initial market entry. Through federal, state, and local EDOs, businesses may be able to access zero-to-low interest loan financing for certain projects.

The lending support can be leveraged by small and mid-size businesses, as well as by large companies. In this context, it is always critical for businesses to evaluate the opportunity for

financing support alongside traditional lending options because terms and commitments can vary depending on the location, project scope, and financial need.

Job Training

Job training incentives are designed to benefit both the community and the investing business. Not only does the business receive vital financial resources and technical support for training its employees, but the community is also able to develop its workforce by introducing and deploying new skills.

These workforce development programs are typically designed to either reimburse businesses for eligible training activities or to channel such training through a local academic institution. Companies will need to develop a training strategy and evaluate how the business can capture support for their specific skill requirements. As with all incentives, tracking the training activities and relevant expenditures is critical to capture reimbursements.

Complex Incentives

From the federal government to municipalities, there are additional incentive opportunities that can be leveraged by businesses to support development and financing. Referred to as complex incentives, these programs typically require additional due diligence and legal structuring to be effectively utilized.

Examples of these incentives include Opportunity Zones and New Markets Tax Credits, which may be leveraged in certain qualifying federally-designated census tracts that have been targeted for economic development. Investors in these respective zones can capture significant federal tax savings for eligible projects. Businesses can either directly participate in the investment or work with the existing investors in the zone to lower the cost of development and secure critical project financing.

Another complex incentive used for economic development purposes, commonly found at the municipal level, is tax increment financing (TIF). This development tool leverages anticipated future property tax revenues to support the financing of a project. Depending upon the location, these monies can be deployed in a variety of ways for project assistance, including financing, site, and infrastructure support, and even workforce development training.

Process to Secure Incentives

With such a wide range of possible business incentives, a company must take a strategic approach to economic development incentives in order to ensure project success and reduce risk to the business. Part of that strategic approach requires an understanding of the processes by which a business may secure such incentives and how that fits into the overall

site selection. Below are the key steps and best practices of the dynamic economic development incentives process.

Research and Model

The first critical step to pursuing economic development incentives is to define the project scope and the key criteria for the ultimate location decision. Economic development incentives are just one element of site selection. In order to realistically compare potential economic development incentives, companies must evaluate locations based on a wide variety of factors in order to narrow down their potential project destinations to a short list (for additional resources, please reference [SelectUSA Investor Guide](#), Chapter 10: Site Selection).



The company will also need to conduct research and due diligence on the various incentives opportunities and risks presented in each jurisdiction. While this can commence through desktop research using resources such as databases available on [SelectUSA's website](#), a complete evaluation of the programs, rules, timing, and commitments will be required. Working closely with the respective parties, along with qualified service

providers, is vital throughout the process. One best practice is to develop a financial model to assess the true impact of the incentives, particularly as different project scenarios may be under consideration.

Economic Development Engagement

Once the project scope is defined and the location decision process narrows to a short list of communities, direct engagement with economic development officials is critical. Ensuring confidentiality is vital in this stage. To do so, the first step is to secure non-disclosure agreements with the various stakeholders that will be involved in the conversation, which typically includes state, regional, local, and utility EDOs. Most EDOs will offer to provide these confidentiality agreements, but procedures and coverage vary across the country. In many cases, the company, or a qualified service provider, may instead directly develop the respective confidentiality agreements.

Information and Data Disclosure

Ensuring confidentiality and protection of proprietary information is critical in the economic development incentives process because there will be certain steps throughout the process that will require the company to disclose information related to its business and the project

itself. This typically includes the number and type of jobs that will be created by the project, anticipated wages and benefits, the amount and nature of capital investments, and anticipated tax generation, among others. When data is requested, companies should be sure to work closely with advisors and economic development partners to understand exactly what might be required.

Negotiation

Throughout the economic development incentives process, a company will have a series of direct discussions with its EDO partners. Negotiation is a critical element to ensure the programs are best fit for the business and the project, while also meeting the mission of the various economic development stakeholders. Based on the business' requests and available economic development programs, the involved EDOs will generally make a formal offer combining multiple options and programs into an incentives package. Although all such EDOs are constrained by the laws and regulations governing their programs, there may be room for negotiating the value of the incentives to the business and tailoring them to best fit the unique requirements of the business and project over the near and long term.

Legal Documentation

Once an offer of economic development incentives has been made and accepted, a company will complete the process by formalizing the agreement and the commitments set forth by all parties involved through legal documentation. It is vital to have proper legal representation to assess and complete the associated applications, contracts, and agreements to make certain the business understands the commitments set forth.

Project Announcement

When businesses create jobs and make significant investment commitments, political officials and economic development leaders are excited to tell the world. Coordinating with the various partners will be important to ensure the public announcement of the project is appropriate for the message and mission of the business. Not only can this be a great opportunity to discuss the exciting project, but this is also a valuable chance to begin the talent recruitment process.

Incentive Compliance & Aftercare

Once the project commences, the vital phase of compliance begins. In order to receive the economic development incentives, the business will have a prescribed set of reporting requirements for the various stakeholders to demonstrate and document project performance. In this context, it is absolutely critical to develop a strategy and identify resources to lead this phase because missteps (especially failure to meet technical performance standards or failure to provide required reports, for example) may

compromise the receipt of the incentives, even if commitments and milestones are met by the company.

Important to Know!

Incentives are a Partnership

First and foremost, it is important to consider economic development incentives as a partnership between the business and the community. While vital to ensure the business meets their goals through this process, the community will have its own metrics and mission as well. Economic development officials should, therefore, be treated as allies and collaborators, not as adversaries.



Develop an Aftercare Plan

As previously mentioned, even after incentives have been secured, compliance and aftercare remain critical to assure the monies and benefits are ultimately received by the business. By developing a sound aftercare plan, businesses will find themselves in a strong position as the project commences. If those resources do not exist internally, including legal counsel to assess legal risks associated with non-compliance with incentive agreements, it is important for the company to find and engage a qualified service provider to provide support for this phase.

Coordinate Messaging

Ahead of any public announcements, it is a best practice to always coordinate messaging with economic development partners. Being on the same page with a strong message about the project can drive more than just a news article, such as buzz for job recruitment and business development.

Incentives Are Just One Factor

When evaluating where in the United States to locate operations, there is a long list of core factors to assess. Economic development incentives are only one part of the larger decision process, which should also include labor, logistics and supply chain, operating costs, and customer proximity, among others.

When to Work with Third Parties

The economic development incentives process in the United States requires due diligence, financial modeling, paperwork, legal construction, and negotiations. Bringing in trusted and qualified service providers will help reduce the time cost and burden on the business, while providing a specialized knowledge base that may not be present within most companies.

Conclusion

Business incentives are designed to catalyze economic development in American communities by providing various forms of direct and indirect financial support to businesses. In return, the governments that provide such support expect that the businesses will reciprocate by creating jobs and making investments in infrastructure, facilities, and equipment that ultimately enhance the local economic climate. Consequently, these public-private partnerships create real opportunities and can provide substantial value for foreign businesses that are entering or growing in the United States market.

About HICKEY

HICKEY is a global leader in site selection, credits and incentives advisory, labor analytics, and supply chain solutions with active projects in the Americas, Asia, Europe, Australia, and Africa. Utilizing state-of-the-art tools and proven methodologies, HICKEY leverages nearly 40 years of experience to support its clients and provide the professional services needed to identify optimal locations anywhere in the world.

By having a presence in key global markets, HICKEY ensures our services are always aligned with each unique local environment and provides our clients with an unparalleled level of support. HICKEY has offices strategically located across the country and around the globe. As the largest independent location strategy firm globally, HICKEY advises companies ranging from Fortune 500 to fast-growing startup businesses serving an expansive list of industry sectors.

Disclaimer

This chapter was prepared by David Hickey and Jason Hickey with HICKEY. Views expressed in this chapter are the authors' own, not that of the International Trade Administration. This chapter does not constitute legal advice. Readers interested in investing in the United States should consult legal counsel.