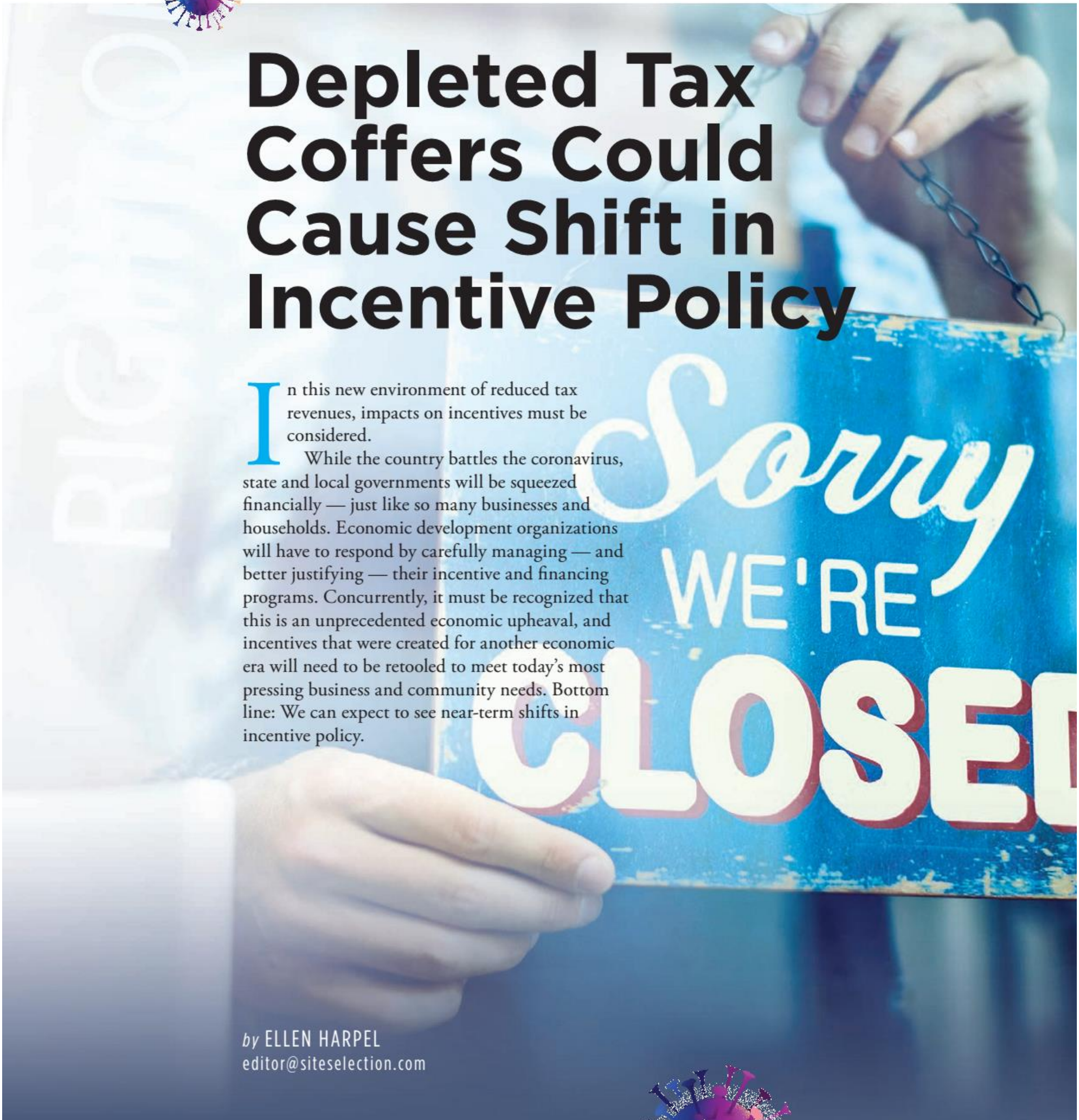

Depleted Tax Coffers Could Cause Shift in Incentive Policy

In this new environment of reduced tax revenues, impacts on incentives must be considered.

While the country battles the coronavirus, state and local governments will be squeezed financially — just like so many businesses and households. Economic development organizations will have to respond by carefully managing — and better justifying — their incentive and financing programs. Concurrently, it must be recognized that this is an unprecedented economic upheaval, and incentives that were created for another economic era will need to be retooled to meet today's most pressing business and community needs. Bottom line: We can expect to see near-term shifts in incentive policy.

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Photo: Getty Images

Incentives Will Adjust to New Priorities

Many state and local incentive programs were created in response to the Great Recession. However, the COVID-19 economic downturn has different causes and has had very different impacts on businesses and employment. The incentive and finance programs put in place more than a decade ago are often not appropriate to the task at hand.

For example, COVID-19 has delivered a services-based recession that has had swift and devastating effects on restaurants, retail, personal services, entertainment and tourism activities. These types of businesses are central to the fabric of our communities and are a big part of what people love about the places where they live and work. They are fundamental to quality of place initiatives that help attract and retain talent. However, many economic development financing and incentive programs explicitly exclude these types of businesses because they are local-serving rather than export-oriented. Economic development organizations are responding by creating entirely new small business support funds that may even draw funding from legacy programs that are either currently under-utilized or that are not aligned with immediate priorities. Others are modifying programs to extend their reach.

Economic Development Objectives are Changing

Incentives and financing programs always work best when they are deployed in support of a well-defined economic development strategy. Now more than ever, state and local governments facing resource constraints must be highly focused on the targeted policy outcomes their incentive and financing programs are intended to achieve.

State and local economic development goals have evolved over the past few months. Thoughtful leaders were already moving away from new job and investment tallies as their main measures of merit. We are now hearing about sustaining existing businesses; preserving jobs and getting people back into quality work; and the need to address the glaring economic and health inequities that have been laid bare in our communities. Incentives will increasingly be structured to address these objectives.

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Equity implications will be top of mind. New programs that serve the smallest businesses, those in distressed or underserved communities, and minority-owned businesses will emerge as political and economic priorities. But the changes will not be limited to a few programs. We expect to see a wholesale redesign of many state and local economic development efforts to make them more equitable. In this environment, greater attention will be paid to how to deploy various incentive and financing tools to improve economic prospects beyond the most prosperous areas to create opportunities for all residents.

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The challenge to preserve businesses and get people back to work is running smack into future-of-work trends, which will also affect how incentives are used. In the near term, it is difficult to imagine that companies will make substantial, long-term hiring commitments, which is the stated goal of many incentive programs.

Instead, flexibility will be a priority. Technology advances have already dampened demand for workers in some sectors, and the work-from-home experiment has been successful for many firms and individuals. Companies that have effectively navigated work-from-home will not only continue to do so at some level, but will likely also increasingly use freelance and contract workers as they become more adept at managing a remote, distributed workforce. Incentive programs organized around traditional job counts for full-time employees may need to adapt to acknowledge these changes in the way work is now performed.

Demonstrating Gains for Both the Community and Business

A successful incentive deal creates an investment partnership where both parties gain. It is not about conducting a transaction and declaring that a "win." Incentives for corporate relocations or expansions that are primarily structured as transfers to the company are likely to diminish in favor of incentives that create more tangible benefits for the community. Infrastructure and workforce development or training programs are expected to become more prominent components of incentive packages. We've already seen state and local governments introduce new programs that provide jobs seekers with low- or no-cost training and that share the costs of employer-provided training for new hires.

Incentives will continue to be part of the economic development toolkit, but they will necessarily evolve to align with today's economic conditions, business requirements, community needs, and political imperatives. ▼

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