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A Framework for Evaluating Economic Development Incentives

July 24, 2014

Concepts to Consider

Considerations for estimating economic impact:

- Incentives reduce business costs
- Reduced costs allow plausible job creation
- Businesses need time to adjust to reduced costs
- The broader economy may see job growth or displacement
- Each policy choice has opportunity costs
- New residents might expand the economic base

How do companies respond to incentives?



Business Costs: \$30 Million

Question to ask about plausible growth:

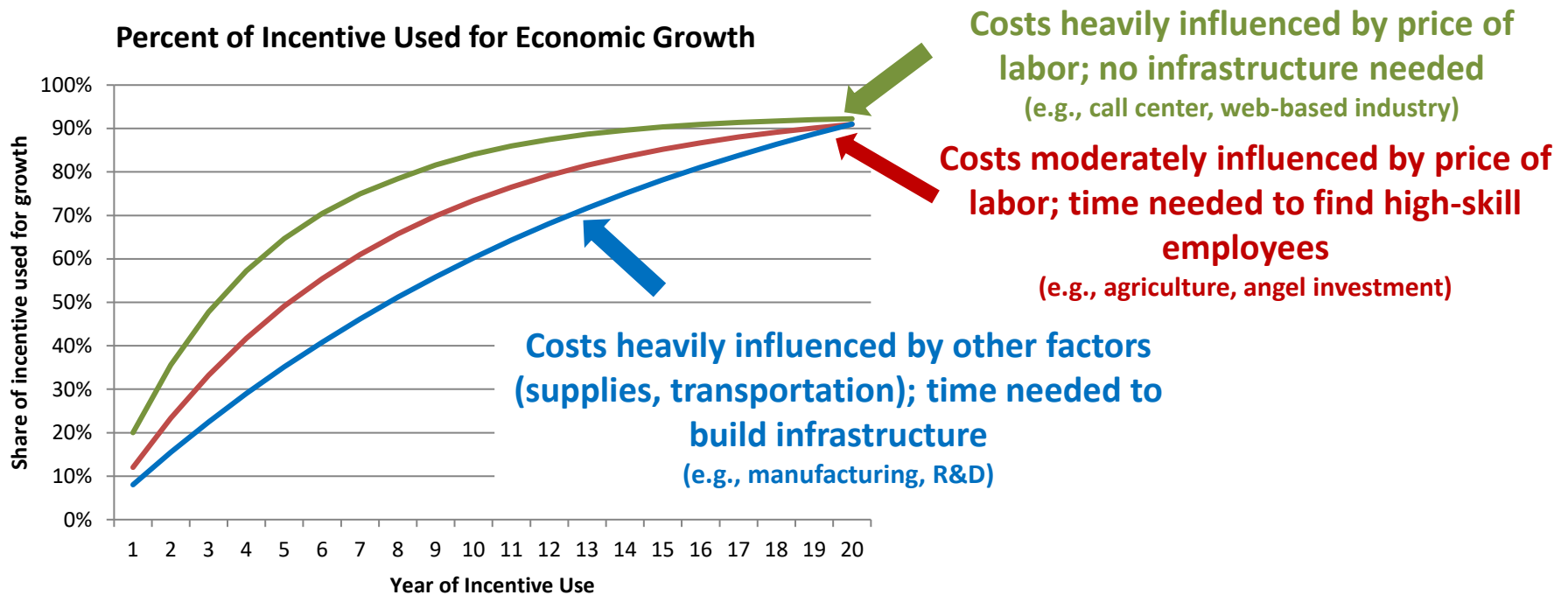
- How big is the incentive compared with overall business costs?

Business Costs: \$30 Million



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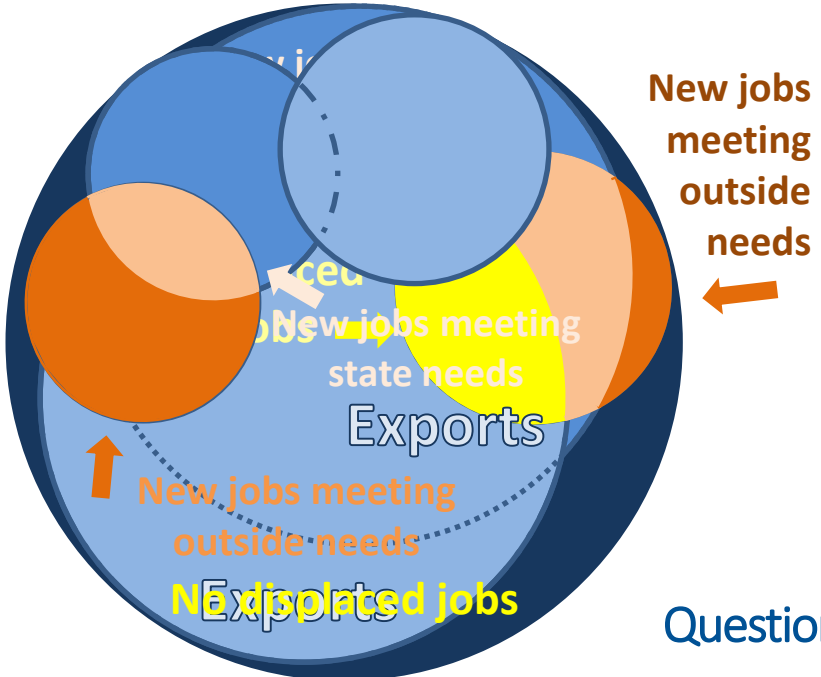
Did benefits appear right away?



Questions to ask about responsiveness and speed of impact:

- How responsive is the industry to changes in business taxes? Do taxes make up a large portion of overall costs?
- Are businesses prepared to hire more people right away, or do they need time to train and build infrastructure?

Were the jobs really new?

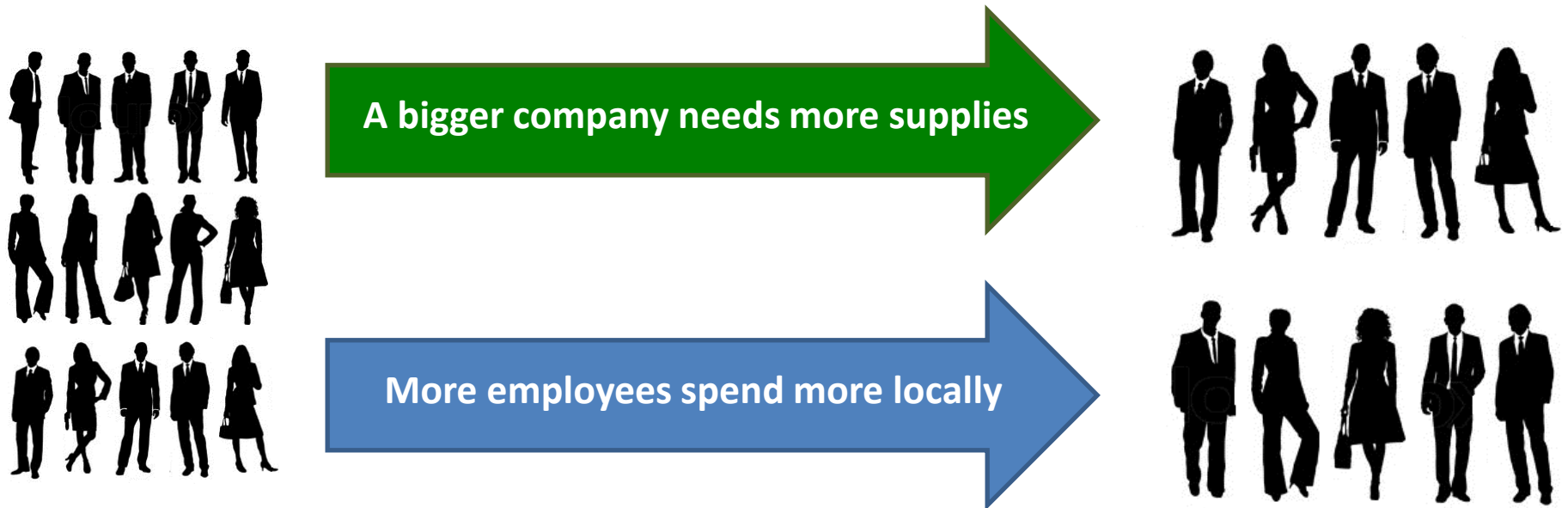


- National demand for industry
- State demand for industry
- Employment at existing state companies
- Employment at new companies getting incentive

Questions to ask about expansion and displacement:

- Has local demand grown? Has external demand grown?
- Did new companies displace business at existing companies?
- Will new companies bring money to the area by exporting goods?
- Were new companies already growing prior to the incentive?

Would there be additional employment spurred by the incentive?

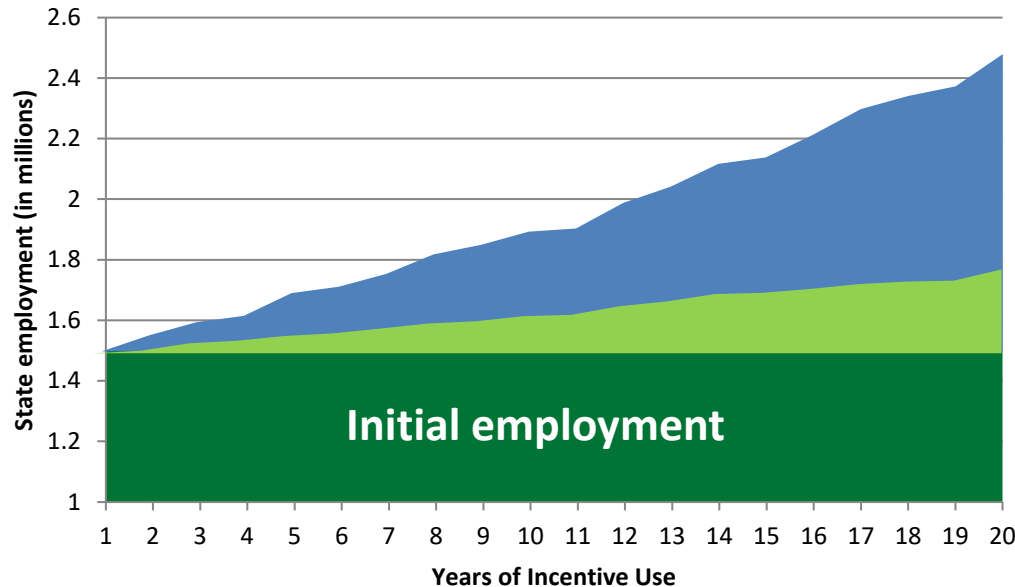


Questions to ask about multiplier effects:

- Were wages for new employees higher than average?
- Did companies purchase supplies from local businesses?
- Were local services used for companies to expand? (construction, transportation, etc.)

What would happen under other scenarios?

State Employment by Year



Employment under the incentive

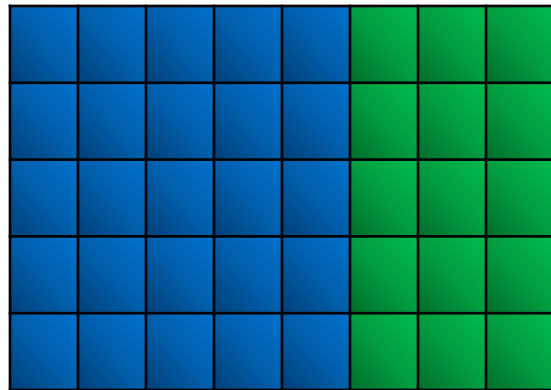
Employment under an alternative policy

Questions to ask about trade-offs and context:

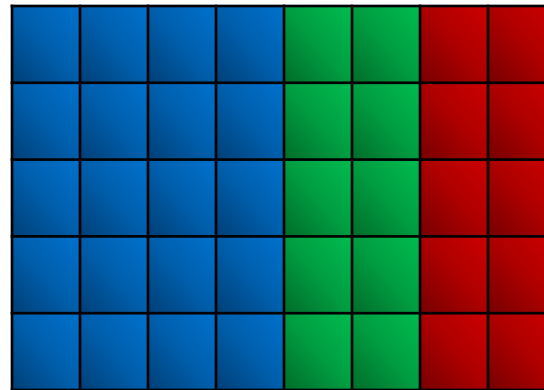
- Is the economy already expanding?
- What is the next best or most likely use of the funds?
- How much did the economy grow beyond what would have otherwise occurred?

How much did state residents benefit?

State With Tight Labor Market



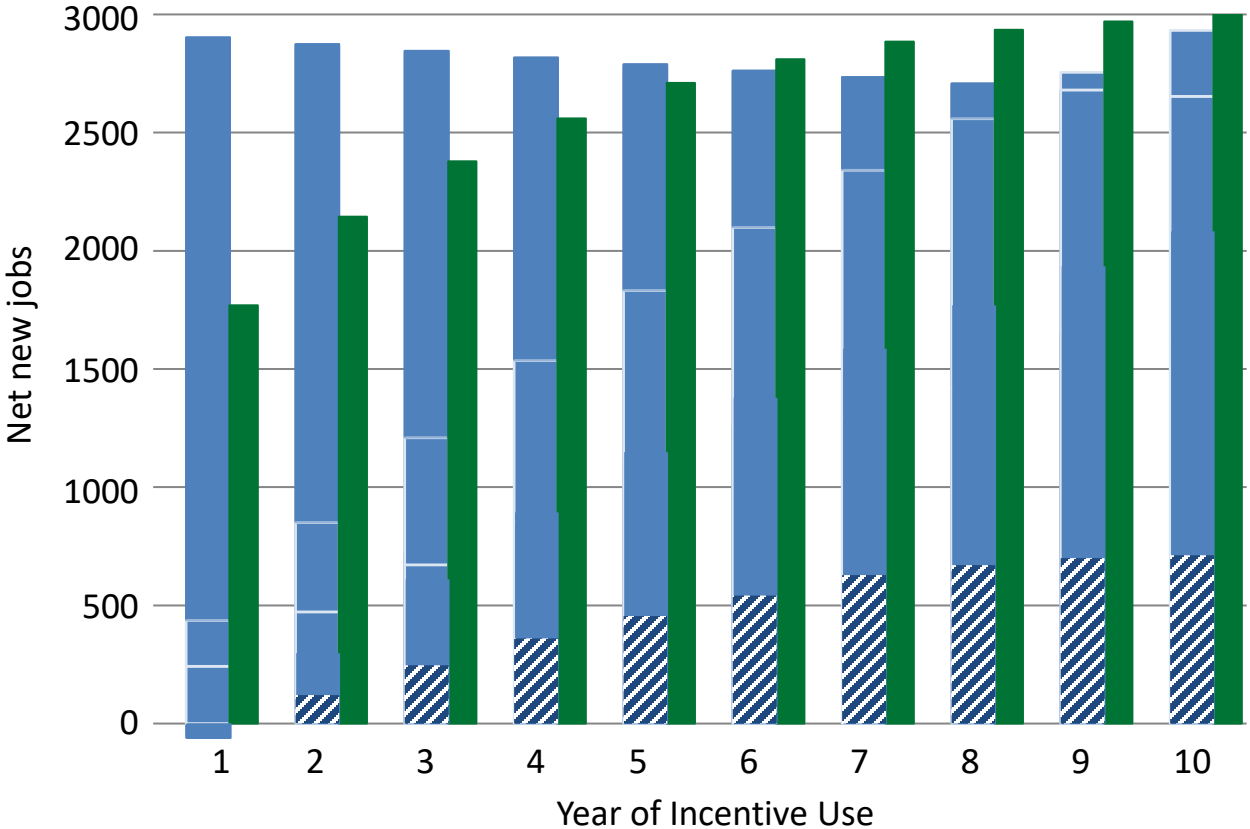
State With Slack Labor Market



Questions to ask about migration and leakage:

- Is there room in the economy to support more jobs?
- Do residents have the skills to fill the new jobs?
- Are new jobs attractive to out-of-state residents?
- Do companies get incentives for spending out of state?

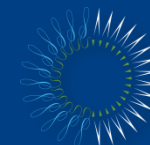
What is the estimated economic impact of a tax incentive?



- Plausible job creation due to cost reduction
- Adjustment over time
- Job displacement
- Indirect job creation
- Opportunity costs
- Benefits to current residents
- Reported job creation

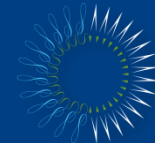
Broad goals of Nebraska's tax incentives

- To strengthen the state's economy overall
- To revitalize rural areas and other distressed areas of the state
- To diversify the state's economy and position Nebraska for the future (by stimulating entrepreneurial, high-tech, and renewable energy firms)



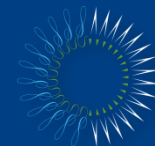
Key lessons for setting metrics: Strengthening the overall economy

- Calculate fiscal impacts, but not to the exclusion of economic metrics
- Focus on outcomes that affect the economic well-being of state residents
- Go beyond wages when measuring job quality



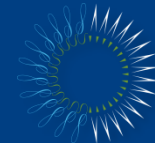
Key lessons for setting metrics: Revitalizing rural and distressed areas

- Consider to what extent the incentives are reaching their target areas
- Assess whether people living in those areas are benefiting
- When comparing different geographic areas, use broad indicators with caution



Key lessons for setting metrics: Diversifying the state's economy

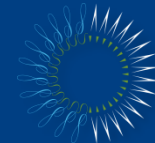
- Measure incentives' effects on business outputs and outcomes
- Study whether state incentives help businesses to receive financing from other sources
- Consider job creation, while understanding that programs are designed to work over the long term



First step for setting metrics: Agreeing to guidelines for doing so

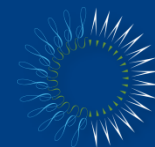
Potential guidelines:

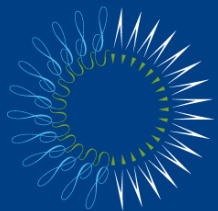
- Select metrics that reflect the goals of incentives
- Consider available data
- Use clear and consistent definitions
- Coordinate to allow for comparisons between programs with similar goals
- Choose and define metrics to rigorously measure economic impact



Potential process for determining metrics

1. Legislators agree on a set of guidelines for determining what metrics are appropriate
2. Prior to conducting the evaluation, evaluators propose metrics that follow the guidelines.
3. Legislative committee overseeing the evaluation has opportunity to provide feedback.





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