



Mississippi Economic Development Council Winter Conference 2010

The Changing Face of Incentives



Thursday, February 4, 2010

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Incentives Discussion

- **What are the types of incentives that are in play today?**
- **What's different from pre-recession?**
- **What's working?**
- **What should you be doing?**

**What are the
Driving Factors
for
INCENTIVES
in today's
economic environment?**

“Driving Factors” for Incentives

- **Jobs!**
- **Jobs!**
- **Jobs!**
- **Competition!**
- **Competition!**
- **Competition!**
- **State Revenue Deficits!**
- **State Revenue Deficits!**
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MEDC – Changing Face of Incentives

Since December 2007:

- **18.1 million workers have lost their jobs**

Currently:

- **15.3 million unemployed**
- **2.5 million marginally attached (given up)**
- **9.2 million involuntary part-timers**

-
- **27 million workers unemployed or underemployed**

Economic Policy Institute
January 8, 2010

MEDC – Changing Face of Incentives

Currently:

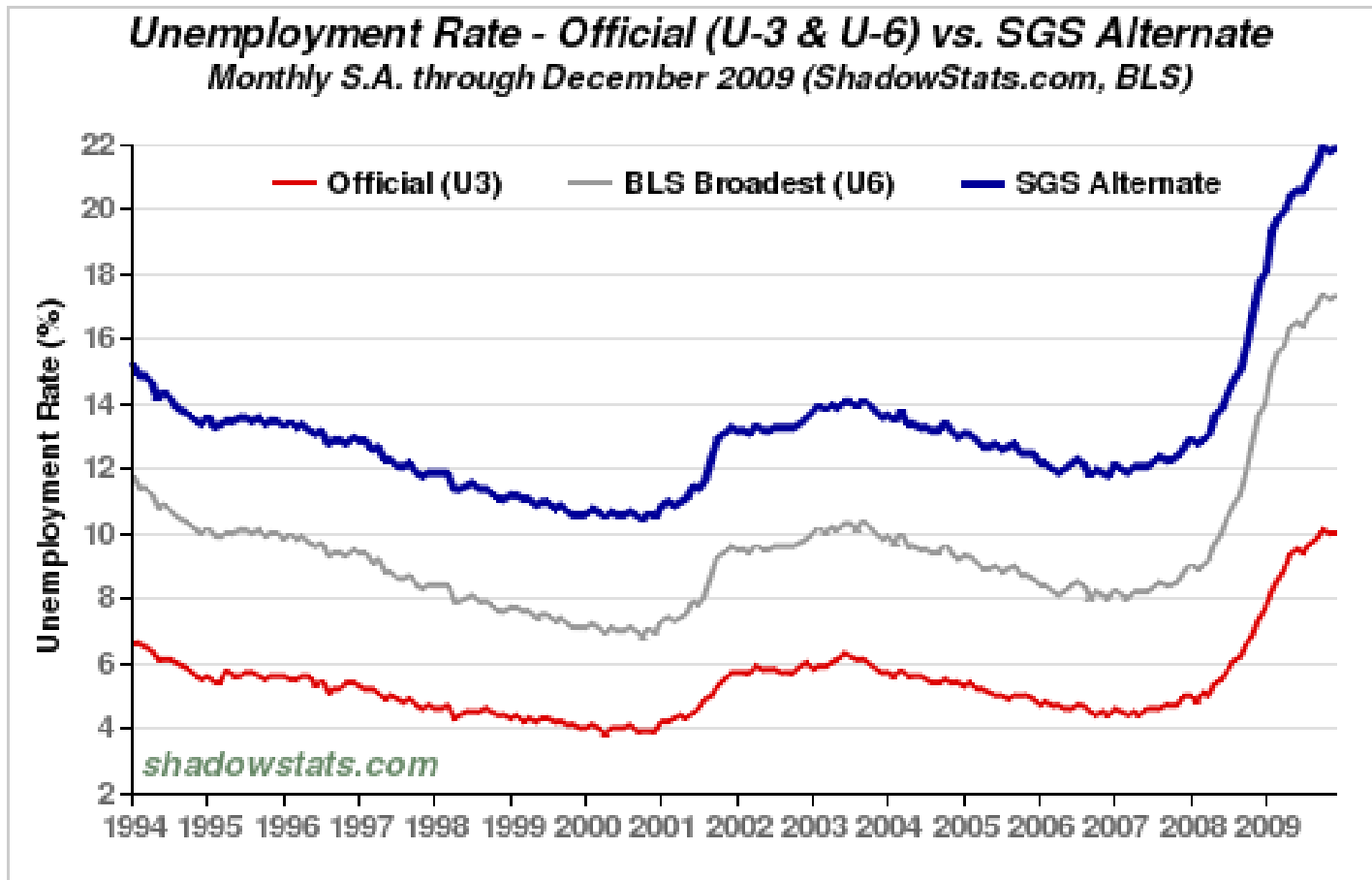
- **6.1 million workers have been out of work for over 6 months**

Demographics:

- **1 out of 4 are under 25 years of age**
- **1 out of 5 are minority**
- **Nearly half have some college**
- **1 out of 5 have a college education**
- **Average work week for December 2010 was 33.2 hours**

Center for Budget & Policy Priorities
January 2010

MEDC – Changing Face of Incentives

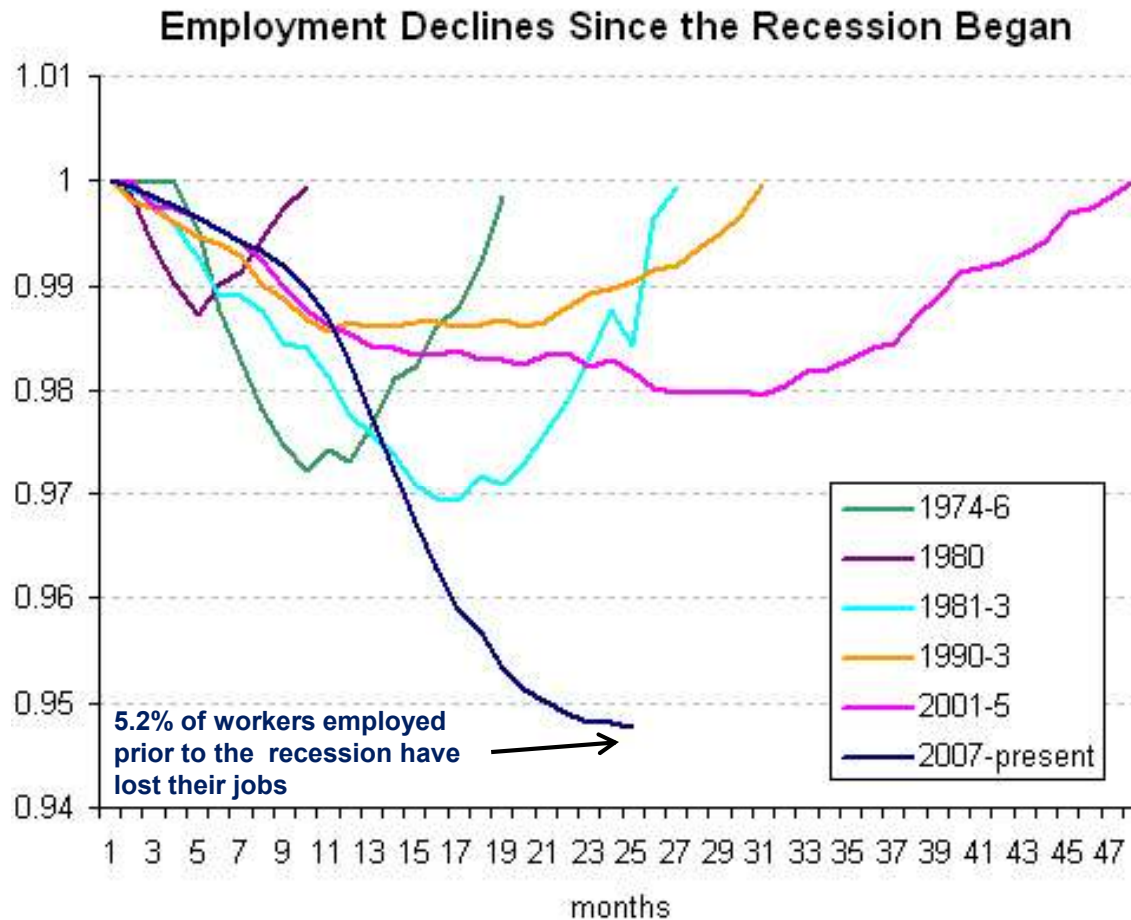


22.0% =
BLS + short-term
+ long-term
Discouraged workers

17.5% =
BLS + short-term
Discouraged workers

10.0%
BLS Report on
Unemployed

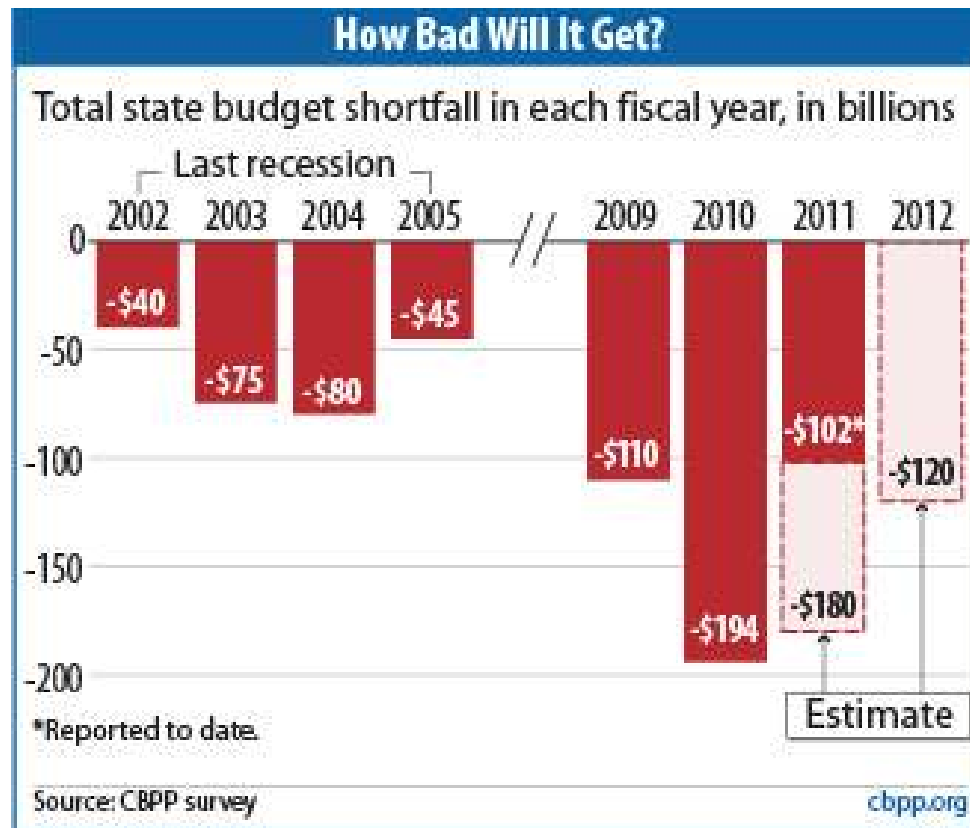
MEDC – Changing Face of Incentives



Ratio of non-farm monthly payroll compared to non-farm payroll at the start of the recession. (Chartporn.org).

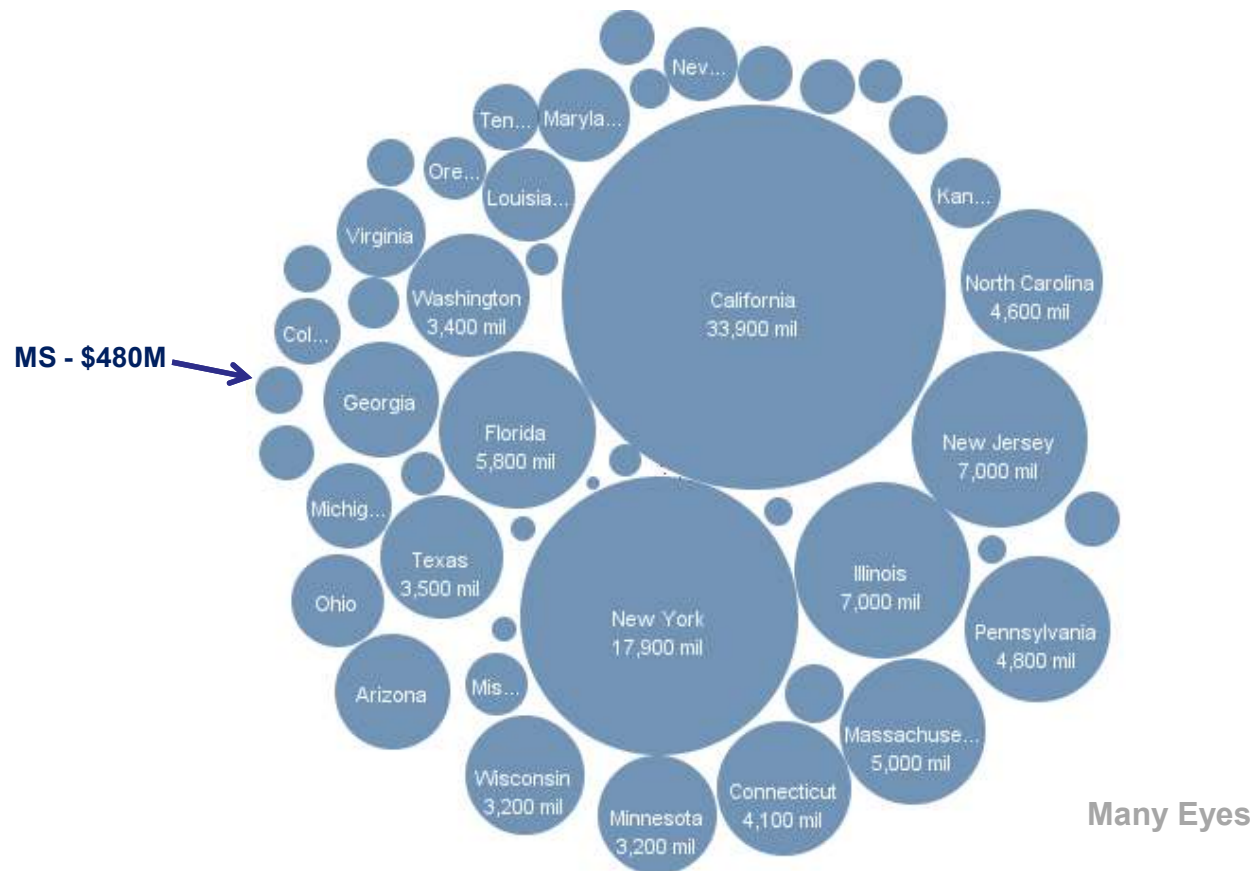
MEDC – Changing Face of Incentives

State Budget Shortfalls Actual and Projected



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State Budget Deficits 2010 Estimates



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Currently:

- **44 States face budget deficits in '09 or '10**
- **Steepest decline in state tax receipts on record**
- **43 states have reduced services to residents, primarily in health care, K-12, higher ed, & elderly**
- **Only states currently projecting to be in the black MT, AK, WV, TX, ND, & WY**

(What do these six states have in common? HINT: it might have something to do with oil and gas reserves.)

Center for Budget & Policy Priorities
January 2010

**And,
Companies and Consultants
are STILL looking for
INCENTIVES???
- in today's
economic environment??
Yep!!**

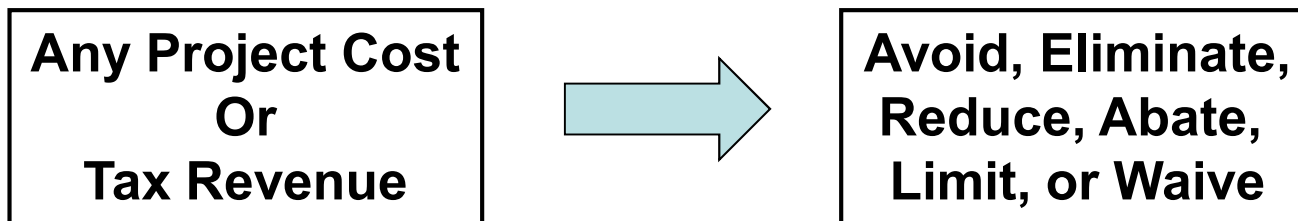
**Important Fact to
Remember:**

**Incentives are
Designed to
Discriminate!!**

Incentives Discriminate Based On:

- **Amount of capital investment**
- **Number of jobs created**
- **Average payroll created**
- **Targeted Business and Industry**
- **Geographical regions (impact zones)**
- **Economic Impact Analysis**
- **Credit Rating and Viability of the Prospect**
- **Image and Credibility for the Location**
- **Long-term viability of the business sector**

Concept of **Incentives**



Key to Success is a Win-Win Strategy

What types of incentives are in play today?

- **Rebates**
- **Abatements**
- **Exemptions**
- **Tax Credits**
- **Off-sets**
- **Cost Avoidance**
- **Waivers**
- **Tax Increment Financing**

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What do all of these incentives have in common?

Nobody
has to write a
check without
new tax
revenue in
hand!

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Nobody
has to write a
check without
new tax
revenue in
hand!

+

No
existing tax
revenues
are
impacted!



Examples of REBATES

- **Sales Tax Rebates – construction materials & equipment**
- **Sales Tax Sharing Rebate**
- **Property Tax Rebates (Real & Personal)**
- **Construction & Operating Permit Fee Rebates**
- **Relocation Cost Rebates**
- **Payroll Tax Rebates**

Why are Rebates Less Desirable?

- **Beneficiary must pay into the pot before rebates can be paid out**
- **Typically a 12 to 18 month delay in rebate payments**
- **Administrative and accounting costs are huge on both ends (prospect and government)**
- **Rebates are typically dependent on future authority for concurrence/approval**



Examples of Abatements & Waivers

- **Sales Tax Abatements – construction materials & equipment**
- **Sales Tax Sharing Abatements**
- **Property Tax Abatements (Real & Personal)**
- **Building Permit Fee Waiver**
- **Environmental Remediation Cost Abatement**

Examples of Tax Credits

- **Employment Tax Credits**
- **Investment Tax Credits**
- **Corporate Income Tax Credits**
- **Franchise Tax Credits**
- **Payroll Tax Credits**
- **Pollution Control Tax Credits**
- **Computer & Software Tax Credits**
- **Research & Development Tax Credits**
- **Anything “GREEN” Tax Credits**

Why are Tax Credits Less Desirable?

- **Must establish a tax liability before the tax credits come into play**
- **Net Present Value of tax credits are of little value in comparative cost analysis**
- **Administrative and accounting costs can be excessive**
- **Predictability of the value of the benefit is questionable**



**What other
Incentives
are in play?**



**Some
Incentives
are targeting
reduction in annual
operating costs
as a strategy**

Incentives Reducing Annual Operating Costs

- **Net Operating Loss Carry-forwards**
- **Wage Tax Credits (up to 50% of payroll)**
- **Revision in types of Property subject to Property Tax**
- **Revision of Property Tax Classifications**
- **Workers' Compensation policy revisions**
- **Corporate Income Tax Apportionment Formula (4 factor vs 3 factor vs single)**
- **Multi-national Income Tax Assessment Formula (“Waters Edge” Election)**

Worker Compensation Insurance Revisions

- **Provides employers right to independent medical reviews**
- **Provides employer selected Doctor networks**
- **Imposes Uniform Standards, including return to work criteria for employees**
- **Provides for an employee tracking and review process for previous injuries**



Property Tax Revisions



- **Eliminates raw materials, goods in process, and finished goods (inventory) as taxable property**
- **Provides for expensing certain properties previously depreciated**
- **Provides for accelerated depreciation of certain personal property**
- **Provides for discretion on classifying property as real or personal**

**What additional
types of
Incentives
are in play?**



**Believe it or not,
CASH \$\$\$\$\$\$
Is still
KING!!**



Examples of CASH Incentives



- **North Carolina: One NC Fund**
- **Texas: Texas Enterprise Fund**
- **Florida: Quick Action Closing Fund**
- **Virginia: Governor's Opportunity Fund**

And
Clawbacks
are still in play!



Examples of CLAWBACKS



- **North Carolina:**
Dell to repay all incentives back to the state and county after closing an assembly plant
- **Texas:**
TEF currently re-negotiating 11 exist contracts; 2 companies have withdrawn from the program and returned their awards

**Incentives are changing
and will continue to
change, however,
As always,
Remember the age old
Adage:**

**Incentives can not
make a bad deal
good –
they can only make a
good deal better!!**

Questions & Answers

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