

# The Politics of Local Economic Development

How To Use Facts to Stay Above the Fray

Ohio Economic Developers Association

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# Classic Economic Development



# Why is economic development increasingly political?

- Decisions involve the use of public dollars
- Decisions are made by elected officials
- Tax aversion limits available funding, competing priorities
- Fear of Big Business/the 1%
- Union vs. Right to Work
- Grassroots advocacy more important in political decision making
- No established faction that is pro-economic development
- Most economic developers are public employees who cannot engage in lobbying activities
- Concept that development pays for itself
- NIMBY/BANANA/NOPE syndromes

# We Are All Part of the Problem – Recent Headlines

- “End of Tax Break Means End to 1250 jobs”
- “Illinois official calls incentives a form of cronyism”
- “Incentives: PBS vs. GE”
- “NC audit finds lack of verification in administering job creation grants”
- “Florida program gives \$423,000 incentive to cocaine dealer”
- “Despite Big Promises, Incentives Often Fail to Deliver”
- “Another day, another bad economic development deal”
- “GE says new taxes could force it out of Connecticut”

# Why Projects Go Bad

- Failure to perform a rigorous financial analysis of the company – pull a Dunn & Bradstreet, review 10-K
- Thinking your deal will be the next Google/Apple
- Deal entirely dependent upon short-term federal/state grants
- Your deal is at the tail end of the latest economic development /R&D fad
- Lack of credible information about other sites under consideration
- Deals are done for political reasons
- The deal never will make financial sense

# Media Hype of Incentives

## Incentives Spending by States – *New York Times*

|            |                |
|------------|----------------|
| Ohio       | \$3.24 billion |
| New York   | \$4.06 billion |
| Virginia   | \$1.29 billion |
| Alabama    | \$277 million  |
| Michigan   | \$6.65 billion |
| Kansas     | \$1.01 billion |
| Arizona    | \$1.47 billion |
| Washington | \$2.35 billion |

# Consider the Alternatives

- FACT - economic development pays the bills of all other public services
- Since the recession started in 2007, the federal government has spent \$688 BILLION on unemployment insurance payments. \$150 billion was spent in 2010 alone
- In FY 2013, we spent \$80 billion on food stamps – doubled in 4 years

# It's The Economy – STUPID!

*How important will each of the following issues be to your vote for president next year -- will it be -- extremely important, very important, moderately important or not that important? [RANDOM ORDER]*

Ranked by percentage extremely/very important

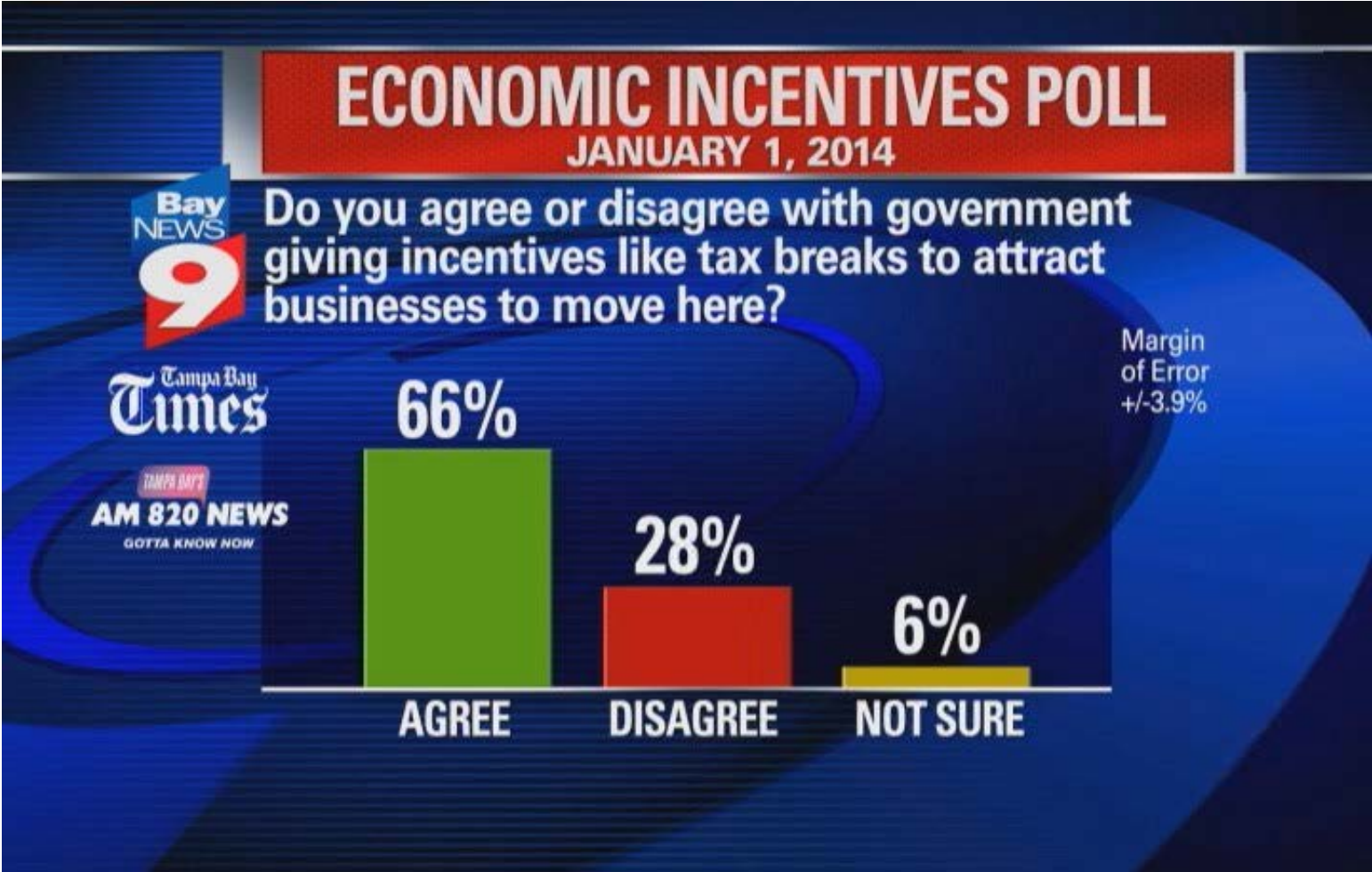
|   | <b>Extremely<br/>important</b> | <b>Extremely/<br/>Very important</b> |
|---|--------------------------------|--------------------------------------|
|   | <b>%</b>                       | <b>%</b>                             |
| The economy   | 43                             | 86                                   |
| The way government operates in Washington             | 43                             | 77                                   |
| Healthcare policy                                     | 38                             | 77                                   |
| Terrorism   | 42                             | 74                                   |
| The way income and wealth are distributed in the U.S. | 35                             | 71                                   |
| Foreign affairs                                       | 28                             | 61                                   |
| Immigration   | 25                             | 59                                   |
| Race relations  | 26                             | 55                                   |

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# Public Opinion Supports Incentives



# Sooner Poll – July 2011

DO YOU THINK THAT THE OKLAHOMA QUALITY JOBS PROGRAM HAS BEEN SUCCESSFUL OR UNSUCCESSFUL IN ITS MISSION TO CREATE JOBS IN OKLAHOMA?"

| RESPONSE                     | PERCENTAGE |
|------------------------------|------------|
| Very Successful              | 10.4%      |
| Somewhat Successful          | 24.2%      |
| Neutral                      | 19.6%      |
| Somewhat Unsuccessful        | 17.7%      |
| Very Unsuccessful            | 19.4%      |
| Don't Know/Refused to Answer | 8.7%       |

51 percent — of those polled endorsed the view that some people, corporations, interest groups and associations should receive tax breaks, compared with 36 percent who opposed all state tax incentives.

# Policies to Avoid

- Surety bonds for incentives
- Making your economic development partner a “contractor” under state law
- Linking incentive payments to state tax payments - Chicago
- Annual public hearings to request incentives
- A “we do what it takes” incentives program
- Failing to link incentives to prospect needs

# Educating Your Community

- Take the secrecy out of economic development
- Economic Development 101 for your elected officials
- Business leader testimonials
- Industry Appreciation Day/business open houses
- Use your state economic development association

# Using ROI to your benefit

- Characterizes incentives as an investment
- Demonstrates to the public that decision to give incentives are not taken lightly
- Shows that incentives are a net gain to the community
- Helps you weed out bad deals
- Guides adjustments to tax and incentives policies to meet prospect needs

# Business Community Buy-In

- Convene a summit of local business executives and elected officials to review incentive policies
- Bring in national experts on smart growth and corporate trends to validate your practices
- Let elected officials hear directly what motivates companies to add jobs and investments
- Develop a standing working group on business climate and incentives

# Written Incentives Policies

- Outline what kind of jobs and investments a community wants
- Establish policies to guide your attraction and retention efforts
- Establish guidelines for incentives amounts
- Secure political and public approval for use of incentives
- May want to consider an “audit” of your incentives practices and programs
- Will help with upcoming GASB mandate to include incentive deals in local financial statements (begins December 15, 2015)

# Questions or Comments?

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