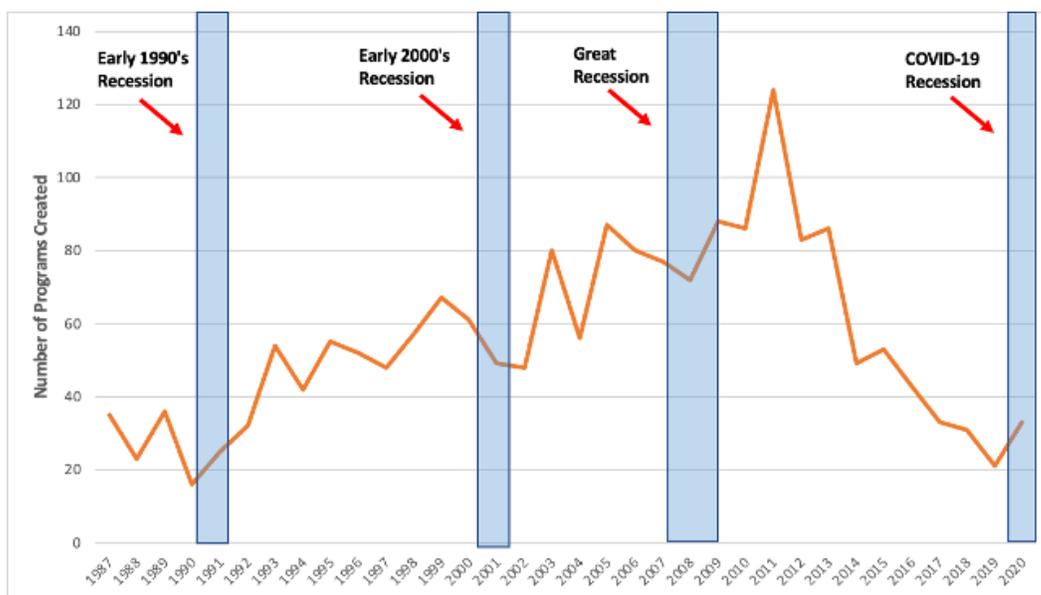


REPOSITIONING ECONOMIC DEVELOPMENT INCENTIVES POST-PANDEMIC

1. INTRODUCTION

State policy makers often turn to incentive programs as part of their response to economic downturns. Economic development incentives are state-administered programs designed to influence business investment behaviors for an economic development purpose. Incentives include grant, loan, and investment programs; specialized services; and tax credits, exemptions and abatements. As the figure below demonstrates, spikes in new incentive program creation typically follow recessions.

New State Incentive Programs by Year, 1987-2020



Source: C2ER State Incentives Database, 2021

The pandemic-induced recession appears to be no different. Last year, states created 33 new incentive programs, according to research conducted for the C2ER State Incentives Database. The total number of state incentive programs has doubled over the last twenty years, reaching 2,165 in 2020, up from less than 1,000 in 1999. If past trends hold, the next two years will also see a spate of new state incentives.

State economic development executives can inform the policy discussion so that new business incentive programs will be both effective and responsible in serving each state’s economic needs. This paper addresses:

INCENTIVE GOALS AND GUARDRAILS

USING INCENTIVES TO ADDRESS IMMEDIATE PRIORITIES

ENHANCING STATE COMPETITIVENESS WITH INCENTIVES

The guidance provided in each section draws on lessons learned from past recessions, our own work on incentive best practices, recent research examining incentive effectiveness, and responses economic priorities that have come to the forefront over the last year. Each state has its own economic priorities and incentive structure that will drive specific policy and program choices. The questions in each section provide a framework for considering the critical issues and trade-offs that will help state leaders assess their incentive options in 2021.

2. INCENTIVE GOALS AND GUARDRAILS

Policy goals should drive incentive program design

The discussion to create new incentive programs should not start with, “What type of incentive should we create?” but “What outcome are we trying to achieve?” A decision on program design should derive from the state’s economic development goals and priorities.

What is the incentive’s objective?

The legislative intent and/or policy goal should be clearly articulated in the statute so that state agencies can determine how best to implement the incentive, the intended partners and beneficiaries can be informed, and the incentive’s performance can be assessed.

The discussion to create new incentive programs should not start with, “What type of incentive should we create?” but “What outcome are we trying to achieve?”

EXAMPLE

Starting in August 2013 in the State of Washington, all bills that enact, extend, or expand a tax preference must include a performance statement. ... The performance statement should indicate the ultimate public policy objective of the preference, as well as a description of how the Legislature expects the preference to bring about that objective. (State of Washington, [Legislative Auditor’s Guide for Drafting Performance Statements in Tax Preference Legislation](#) - January 2014)

Is the proposed incentive structured appropriately to attain the expected outcome?

The total program budget, amount of the incentive or assistance available to individual eligible businesses, the timing of the assistance, and the mechanism (grant, tax code, loan, customized service) through which the incentive is provided will all affect the policy outcome. A simple logic model or series of if-then statements can help policymakers determine if the proposed incentive is designed appropriately to meet the policy objective.

EXAMPLE

One approach to explicitly articulating the rationale for a program is to define the logic associated with what policy makers are trying to achieve and why they choose certain program inputs (investment or activities) to achieve those goals or intended outcomes. ... A logic model summarizes the policymaker's "theory of causation" in which resources available to an economic development organization are used to support processes that achieve relevant outputs. These efforts are connected to high-level economic outcomes (such as improved prosperity or full employment), even though many agency efforts may have only limited influence over the resulting conditions. (CREC, [Redefining Economic Development Performance Indicators for a Field in Transition](#) - July 2017)

Is a tax or other financial incentive the best mechanism to achieve the desired outcome?

Some researchers suggest that customized business services, such as training programs, manufacturing extension technical assistance services, or entrepreneurship support, can be more useful to businesses and have more job creation effects per dollar than business tax incentives.

EXAMPLE

Customized services to smaller businesses tend to be far cheaper per assisted job. ... Yet even at much lower costs, customized services to smaller businesses can have considerable effects. Advice to small business is cheap, and—if high-quality—can be effective if used as directed. For these customized services, research shows that the ratio of job creation effects to costs is plausibly 10 times as great as for cash incentives. (Timothy J. Bartik, W.E. Upjohn Institute, [Making Sense of Incentives](#), 2019)



3. PROGRAM GUARDRAILS CAN LIMIT THE STATE'S RISK WHEN OFFERING INCENTIVES

Incentivized projects do not always proceed as planned. Evolving economic conditions, new corporate priorities, and management ability to execute can all affect project outcomes. These factors may have nothing to do with the state or the incentive, but the state still bears some of the risk. Policymakers should build in provisions that limit the state's exposure to incentivized projects that do not develop as anticipated.

Is the incentive structured so that it pays for performance?

One of the simplest mechanisms to limit the state's risk is to structure the incentive so that funds are paid to the company after it has met agreed-upon contractual milestones. Many states have found this approach preferable to clawbacks that require repayment in cases of non-performance because those provisions often prove difficult to enforce. Performance-based incentives have become the standard in most states.

EXAMPLE

Companies should meet their obligations before incentives are paid out to mitigate risk to taxpayers from companies that make promises but don't deliver. (Utah Governor's Office of Economic Development, [A Plan to Elevate Utah's Economic Success](#), October 2019).

Does the program enable access to data that will allow state officials to track incentive use, costs and outcomes?

Economic developers and policy makers often need explicit approval or permission to access data sources that will help them determine the actual costs and benefits associated with incentive use. The most valuable state data sources tend to be 1) tax data to determine the costs associated with tax incentives and 2) workforce data to verify job creation and retention. Incentive programs may need specific legislative language to allow economic development organizations and state policy makers access to these existing data sources.

EXAMPLE

Administration of tax-based incentives is often divided between the economic development organization and the department of revenue or taxation, which can mean neither party has all the information it needs to monitor use and compliance. While legal barriers exist to full data-sharing, states typically have some flexibility in enabling limited data-sharing for purposes of administering and monitoring incentives while still protecting taxpayer confidentiality. (Smart Incentives, [Collecting Data for Incentives Compliance and Evaluation](#), July 2015. The CREC-developed website [StateDataSharing.org](#) provides specific guidance on the steps needed to make data sharing work for program evaluation and policy analysis.)

Are fiscal controls in place to contain costs?

After the last recession, some new state incentive program costs increased dramatically and often unexpectedly, causing harm to state budgets. Mechanisms that can help control costs include careful program targeting so that benefits only go to the intended recipients, placing dollar caps on incentive programs and/or individual projects, minimizing the incentive's duration, and limiting the transferability and refundability of tax incentives.

EXAMPLE

[B]road or unclear eligibility rules often contribute to fiscal risk. When states are unsure how many projects or companies will qualify for an incentive, officials often struggle to predict how much it will cost. . . . One of the strongest protections against surprise increases in tax incentive costs is an annual limit, or cap, on program costs. . . . States can also ensure that each specific project or business that benefits from a program will redeem incentives on a predictable schedule. (The Pew Charitable Trusts, [Reducing Budget Risks](#), December 2015)

4. USING INCENTIVES TO ADDRESS IMMEDIATE PRIORITIES

The unique characteristics of the pandemic economy mean that states need to approach business assistance differently than they have during past downturns. Existing state incentive and finance programs are often neither sufficient nor appropriately designed for today's needs. Two immediate priorities many states are striving to address are small business recovery and inclusive growth.

Well-designed programs can foster small business recovery¹

Small businesses are an important part of our economy, whether measured by establishments, jobs, taxes generated, role in the supply chain, contributions to quality of life and quality of place, or as providers of valued amenities and services for residents that help attract and retain talent. In many cases, they represent essential businesses in our communities.

For the most part, however, existing economic development incentive programs are not designed to serve the micro-enterprises and locally-serving small businesses (such as restaurants, retail, personal services, health care, arts, and hospitality) that have been the hardest hit during the pandemic. Policy makers trying to help these businesses should consider the following questions when designing new incentive or financial assistance programs.

Which small business challenge are you trying to address?

Businesses have many needs right now, including but not limited to access to working capital. Do small businesses need fast access to small amounts of cash to stay open, keep employees, or adapt operations? Or do they need access to bridge financing to adapt and sustain operations in a new, ongoing operating environment? Which incentive structure - grants, loans, tax rebates, or tax credits - provides the best match for the business need?

Small businesses are an important part of our economy, whether measured by establishments, jobs, taxes generated, role in the supply chain, contributions to quality of life and quality of place, or as providers of valued amenities and services for residents that help attract and retain talent.

EXAMPLE

The Maryland Strong Economic Recovery Initiative includes \$250 million to assist restaurants, small businesses, local entertainment venues, arts organizations, and Main Streets across the state. It includes grant programs for small businesses and restaurants, a layoff aversion fund, an expansion of small and minority business low-interest loans, and \$100 million for an Emergency Rapid Response Fund **“to help hard-hit areas or industries.”** The Governor’s proposed RELIEF Act of 2021 also proposes providing small businesses with sales tax credits for four months and extending unemployment tax relief for small businesses. ([Maryland Strong Economic Recovery Initiative](#) and [Governor Hogan Announces \\$1 Billion Emergency Stimulus and Tax Relief Package](#))

¹ This section draws on our previous work, [Guidance on Adjusting Discretionary Incentive Programs to Support Small Business Recovery](#) (CREC and Smart Incentives, July 2020) and [How States Can Help Small Businesses Recover from the Pandemic. Q&A with Ellen Harpel](#) (The Pew Charitable Trusts, December 2020).



Is financial assistance the most pressing unmet need, or can the state provide other services to help businesses sustain their operations?

Businesses have other concerns that states and economic development partners may be well positioned to address. These include guidance around safe operating procedures, technical assistance on establishing an online presence or implementing new methods for delivering their products and services, subsidizing new expenses to comply with evolving health regulations, or networking and business development assistance via state small business and entrepreneur support organizations.

EXAMPLE

Arizona's Small Business Boot Camp is an offering from the Arizona Commerce Authority, Local First Arizona, and additional community partners to help small businesses respond to the immediate impacts of COVID-19 and plan for the future. Over the course of six weeks, local business leaders and subject matter experts provide real-time support and available resources across Arizona in live, daily sessions (that are also recorded) to help small businesses "return stronger." (CREC and Smart Incentives, [Guidance on Adjusting Discretionary Incentive Programs to Support Small Business Recovery](#), July 2020)

Has the program been designed with the end-user in mind?

Some states have determined that their primary incentive programs are not the best way to help small businesses, which often struggle to provide the documentation needed to apply for the incentive, meet core program requirements, and navigate the compliance process. Other states have reported difficulties adapting established application, underwriting, and reporting procedures so that small businesses can successfully participate in existing incentive and financing programs while still allowing the state to meet its fiduciary and statutory obligations.

New programs should consider how the eligibility rules, application procedures, review or underwriting requirements, outreach activities, and reporting requirements can better serve small businesses, especially those in underserved groups or communities that have struggled the most.

EXAMPLE

Smart Incentives' research on incentives for small businesses and entrepreneurial firms shows that procedural details, rather than program design or intent, are often the biggest roadblocks to small business participation. States should examine eligibility rules, application procedures, review or underwriting processes, and reporting requirements through this lens. (The Pew Charitable Trusts, [How States Can Help Small Businesses Recover from the Pandemic](#), Q&A with Ellen Harpel, December 2020)

Incentives can help embed equitable economic development practices into the recovery

Inclusive growth and equity implications are increasingly top of mind for economic development leaders. New programs that serve the smallest businesses, those in distressed or underserved communities, and minority-owned businesses have emerged as political and economic priorities. A significant redesign of many state and local economic development efforts to make them more equitable may follow.

EXAMPLE

Thoughtful leaders were already moving away from new job and investment tallies as their main measures of merit. ... Greater attention will be paid to how to deploy various incentive and financing tools to improve economic prospects beyond the most prosperous areas and create opportunities for all residents. (**Depleted Tax Coffers Could Cause Shift in Incentive Policy**, Site Selection magazine, July 2020)

Are incentives designed to be responsive to community priorities?

Residents may perceive that economic development is about cutting deals for businesses, rather than helping residents. Some communities feel shut out of economic development activities that are purported to be for their benefit. However, the economic development mission is not to cut deals, and smart incentive use is always about accomplishing economic development objectives - not completing a transaction. States can do a better job connecting their incentive programs to real economic needs and proving that they provide meaningful and measurable benefits for residents.

EXAMPLE

Economic development that is equitable, inclusive, and outcome-driven for residents begins by prioritizing community engagement and clearly linking that engagement to actionable initiatives with measurable results. Equitable engagement recognizes and actively seeks new voices, sustains a commitment to the community, and is willing to think broadly to address multifaceted community concerns. Programs should be designed to be responsive to community priorities and processes put in place to assess whether initiatives have been effective. Formal reporting back to the community helps ensure that priorities continue to be reflected in economic development practices and indicates when course corrections are needed. (Smart Incentives, **Reflecting Community Priorities in Economic Development Practices**, December 2020)

Is the program's design consistent with equitable economic development practices?

Incentive programs can be designed and deployed in multiple ways to support more equitable and inclusive economic development:

- Make an explicit connection between equity goals and incentive program use in statute and guidelines;
- Design incentives so that more benefits stay within the community (such as infrastructure and workforce investments) and are not just cash transfers to a company or investor;
- Work with local partners when offering state-level incentives; and
- Select metrics to assess progress toward equity goals.



EXAMPLE

Invest Atlanta manages many financing and incentive tools designed for small and large businesses, developers, tax allocation districts and individuals. Community leaders expressed frustration with the disconnect between the narrative that Atlanta is a great place for talent and business with the realities of inequality in the city and the lack of economic mobility for residents in the city’s south and west sides. The One Atlanta: Economic Mobility, Recovery & Resiliency Plan explicitly charges Invest Atlanta to lift up historically disinvested communities and achieve better outcomes for communities located to the south and west side of the city. Invest Atlanta will create programs and refine its use incentives and other financing tools to support industries and businesses that produce good and promising jobs, are accessible to residents from priority neighborhoods, and are aligned with workforce development efforts. (One Atlanta: Economic Mobility, Recovery & Resiliency Plan, City of Atlanta and Invest Atlanta, 2020)

Do incentive programs prioritize investment that benefits distressed locations and the people living in those communities?

States face a constant struggle to encourage an even distribution of new investment activity. Many incentive programs include tiered benefits that provide greater benefits for investment in distressed or lagging locations, but in many states these efforts have not yielded the desired results. In fact, over the past decade, regional disparities have become worse in many places. Forward thinking economic development leaders are trying a new approach built around a stronger set of project metrics (often emphasizing job quality, not quantity), enhanced economic modeling, and incentives that take into account local conditions and objectives.

EXAMPLE

One of our overall goals is to make sure that the outcomes from our incentives are focused on the impact on the people holding the jobs, not just the company itself. The research showed that just focusing on growth overall without targeting it to where it was needed most was not the right approach. ... We are shifting those resources across all of our programs, not just incentives, to better serve distressed communities. We have also enhanced our economic modeling to better understand county-level impacts, not just the overall statewide numbers, so that we can tailor incentive offers appropriately given the local conditions and our economic objectives. Within the incentives program, we are also emphasizing job quality more. (Michigan Economic Development Corporation, September 2020 - <https://smartincentives.org/adapting-incentives-to-help-distressed-communities/>)

5. ENHANCING STATE COMPETITIVENESS WITH INCENTIVES

Talent Development

Even during a recession in which many Americans have been left unemployed, businesses continue to clamor for talent. Even in the toughest recessionary times, workers with the right set of skills are difficult to come by. This challenge is not new, and it has gained greater primacy as a concern for economic development leaders. Economic developers must ensure that companies have the supply of talent needed for their states to remain competitive.

Businesses making investment decisions are increasingly looking at available resources, and state economic development agencies are being called upon to help existing and relocating companies find the right talent for available jobs. Economic developers can also help bridge workforce development system gaps and work to strengthen the talent pipeline so that companies can fill jobs that will be available in the future. As states add or refocus talent development programs and capabilities, economic development agencies are expanding their toolkit for attracting and retaining business.²

Businesses are incentivized to take advantage of these services through several mechanisms. For example, to encourage companies to expand their operations within state borders, state agencies may provide talent recruitment and training services at no or low cost. Many state economic development agencies help connect businesses to just-in-time talent recruitment and training services. These are often customized for larger companies, as a location or expansion incentive, reducing the costs and risks associated with making investments within the state borders and rewarding companies creating jobs with resources to ensure that their new talent is ready to perform as quickly and cost-efficiently as possible. Some programs help companies improve the skills of existing employees when companies make large capital investments, co-investing with the firm as it introduces new technologies or equipment.

Do incentive and talent development programs encourage paid work experience?

Economic development professionals can fund training that combines classroom training and on-the-job learning in partnership with industry and the public workforce system. These programs reach new employees and can be further extended to those who may be unemployed or newly entering the labor market. Structuring these opportunities through internships and apprenticeships, for example, reflects a promising approach that economic development leaders are taking to help companies find skills and talent.

Several states offer tax credits to encourage companies to hire interns while other states opt to provide grants to companies for these purposes. Others focus on matchmaking directly or through online job boards. In some states, the economic development agency plays a central role in state apprenticeship programs, and a few states have set up grant programs and tax credits to encourage companies to sponsor apprentices.

State economic development agencies are being called upon to help existing and relocating companies find the right talent for available jobs

² *Beyond Training: How State Economic Development Agencies Are Helping Companies Development Talent (CREC, July 2019).*

Incentives can align the interests of economic development, workforce/education partners and companies

EXAMPLE

New Mexico, New York and North Dakota provide tax credits to encourage internships. New Mexico provides a 'mentorship' tax credit equal to 50 percent of the gross wages paid to qualified students. New York's credit is also 50 percent of wages paid (up to \$3,000) and is incorporated as part of a broader employee training tax credit focused on promoting careers in advanced technology, life sciences, software development or clean energy. North Dakota's credit is for 10 percent of wages (also up to \$3,000), encouraging longer term internships. The South Carolina Technical College System administers two tax credit incentive programs aimed at promoting apprenticeships. The Apprenticeship Tax Credit offers businesses \$1,000 per employee enrolled in a qualified apprenticeship program for at least seven months in a given year. The Enterprise Zone Retraining Program provides a tax incentive for manufacturers to invest in apprenticeship and other workforce training programs in targeted areas.

Do incentive programs foster cooperation with workforce development and education partners?

Economic development organizations foster cooperation through incentives that help businesses respond to and plan for technological, organizational, and other strategic changes and investments that will affect talent requirements. Depending on how they are designed, incentives can align the interests of economic development, workforce/education partners and companies.

EXAMPLE

The Georgia QuickStart program provides customized employee recruitment, screening, training development, and training delivery for eligible new and expanding companies. Operated by the state economic development agency in collaboration with training providers, the program provides companies with a highly agile response to talent needs to help offset start-up costs associated with finding and preparing talent. Georgia organized its program through the technical college system, an important partner. The program provides an in-depth talent needs assessment, develops customized training to meet the need, and delivers training.

Are talent programs aligned with industry and cluster development strategies?

State economic development agencies often focus their talent development resources on training for in-demand or strategic occupations, industries, or clusters. Economic developers play a key role as conveners for industry cluster and sector strategies by bringing together the business community and an array of stakeholders to ensure that businesses have access to a trained workforce pool or worker training programs. Through these efforts, economic developers can help entire sectors identify structured long-term solutions to talent pipeline development. States can direct resources to these sectors, such as by funding collaborative initiatives, offering competitive grant opportunities to organizations supporting workforce strategies in targeted sectors, and providing loans or grants to students or trainees.

EXAMPLE

The Talent Ready Utah program supports collaborative partnerships between economic, workforce and education agencies in four priority sectors. Four detailed pathway programs have been designed to help high school students transition into high skill jobs in aerospace, diesel engines, medical innovations, and the tech sector. Training tools are specific to each sector. In addition, Utah's Talent Development Incentive Loan Program awards loans to students pursuing a qualifying two- or four-year post-secondary degree in a qualifying high-demand, high-wage field as defined by the Governor's Office of Economic Development.

6. MANUFACTURING

The context for manufacturing in 2021 reflects a new understanding of U.S. supply chain vulnerabilities highlighted by the impact of COVID on a wide array of production sectors, especially in our reliance on global sources for many products essential to our health, economic, and national security. At the same time, the massive job losses across the economy and the long-term decline of manufacturing's importance as a source for high skill, high wage jobs have helped to emphasize its importance to state policymakers. With this new emphasis on buying American-made products, there is a renewed sense of optimism around the manufacturing sector that coincides with a re-commitment by states to spur growth in the manufacturing base as a strategy for providing economic opportunities for their citizens.

States are increasingly aware that talent, research and development, innovation, and technical support services are equally or more important than cost reduction in supporting manufacturers

Do legacy incentive programs for manufacturers require a fresh look?

An estimated 200 state incentive programs target manufacturing activities and strive to address some aspect of the sector's needs. The mechanisms underlying many of these legacy manufacturing incentive programs focus on reducing costs for facility development or providing access to capital, often to purchase equipment or to pay for relocation costs. Traditionally, these were primary drivers influencing facility location decisions for large manufacturers, so many legacy state incentive programs sought to respond. However, more recent research suggests that manufacturers are increasingly concerned about their competitive position in the global marketplace and access to skilled talent. In response, states are increasingly aware that other supports related to talent, research and development, innovation, and technical support services, are equally or more important. While manufacturers are unlikely to turn down tax or cash incentives that help offset costs incurred when growing, they may be more inclined to invest when they have access to management and technical advice or skill training for their workers.

³ Pre-pandemic, confidence among manufacturers reached record highs, and a Deloitte study found that more Americans believe that US manufacturing will grow stronger in the long-term. US Bureau of Labor Statistics data released in November 2020 show that 8.5% of workers are employed in the manufacturing sector, totaling less than 13 million jobs. Manufacturing output, measured as the value of goods and services produced, has been steadily increasing. Labor productivity for US manufacturing is 2.5 times greater than in past decades due to advances in machinery, increased workers skill, and improved industrial processes.

EXAMPLE

Reallocating a state's incentive budget away from up-front tax incentives to large corporations toward customized job training or manufacturing extension services for smaller businesses would result in the creation of at least 10 times as many jobs with the same amount of state investment. This finding held up for both types of programs based on separate studies using a quasi-experimental design. (Timothy J. Bartik, [Making Sense of Incentives: Taming Business Incentives to Promote Prosperity?](#) October 2019)

Do new incentive programs address reshoring and supply chain resiliency?

The COVID-19 pandemic has raised awareness of supply chain vulnerabilities, and states may need to consider how their incentive programs encourage or discourage companies to address their risks. Many existing manufacturing supply chains reflect long-term efforts to minimize costs, but by and large OEMs choose individual suppliers to balance price, risk, innovation, and quality among other factors. In the near-term, revamped supply chain networks are likely to emphasize resilience in accessing suppliers as well as risk reduction to ensure that production remains viable even when issues arise around regulatory requirements, sourcing, and inventory. Policy makers can maximize their investments by helping manufacturers with low-cost advisory and support services and by supporting relations with local customers and suppliers (G. Theyel, K. Hofmann, M. Gregory, Understanding Manufacturing Location Decision Making: Rationales for Retaining, Offshoring, Reshoring, and Hybrid Approaches, Economic Development Quarterly, Nov 2018).

EXAMPLE

New York's FuzeHub provides companies with visibility and connections to New York OEMs and suppliers, helps with arranging supplier partnerships, and provides insights about OEM customers. In 2020, FuzeHub worked with several supply chain networks to address the significant uptick in demand for medical devices by providing grants to companies to help offset the cost of shifting production to make ventilators, catheters, and innovative new nonwoven materials to meet the COVID crisis. In addition, FuzeHub has hosted several virtual trade show-style events at low or no cost to the companies involved to connect in-state suppliers to OEMs in targeted sectors.

7. LIFE SCIENCES

Many states target the life sciences or biotech industry within their economic development programs. The pandemic has expanded the ways states approach support for this critical industry to include more focus on production of critical supplies and supply chain vulnerability.

Do the incentives fill a gap and support the state's life sciences ecosystem?

Incentives can't create the essential elements of a successful life sciences cluster, but they do play an important role in facilitating company formation and expansion within the ecosystem. A bioscience or life sciences ecosystem needs risk capital, relevant management expertise, strong science, top talent, a networked community, and the ability to forge strategic partnerships with leading institutions. Incentives that are helpful to companies within the ecosystem may address investments in assets or facilities that can be used by both academia and industry; free, inexpensive, or discounted land and facilities; investment tax credits; company grants; and workforce development.

EXAMPLE

As states evaluate how to continue encouraging bioscience companies to locate within their borders, they need to review their tax and investment incentives related to capital acquisition, workforce training, and physical infrastructure to help companies navigate through all phases of product development and manufacturing. (BIO, Transforming Ideas into Advances: Best Practices in State and Regional Economic Development Initiatives, 2019)

Do incentives to encourage PPE production consider market data and manufacturing guidelines?

Faced with a uniquely high demand for personal protective equipment (PPE) and products related to testing for and tracing the spread of the coronavirus, states sought out new ways to increase supply and bring buyers and sellers together. Economic development organizations and their partners offered PPE incentives, technical assistance for manufacturers, and online marketplaces to help their local businesses. These initiatives are more likely to succeed in assisting local manufacturers and encouraging production if they include data on actual market demand and distribution channels and offer guidance on how to produce PPE and related products in compliance with state and federal regulations.

EXAMPLE

The Maine Department of Economic & Community Development collaborated with Maine Manufacturing Extension Partnership and other partners to issue COVID-19 Manufacturing Workplace Readiness Guidance, catalog needs from area hospitals and medical centers, vet innovations, and evaluate prototype designs that could be manufactured in Maine. (National Governors Association webinar, State Economic Development Organizations Supporting PPE Needs During COVID-19, <https://www.stateeconomicdevelopment.org/covid-19/>)

Do proposed incentives address supply chain vulnerability and risk mitigation?

Proposed incentive programs designed to reshore medical and pharmaceutical supply chains should consider the context in which these activities are occurring. The Boston Consulting Group (BCG) describes the factors influencing biopharma and medtech decision-making, including tax policies, the role of contract manufacturing organizations, availability of talent, existing global networks, and pricing pressures. BCG anticipates a high likelihood that the US, European Union, and, to a lesser extent, China, will use financial incentives, including tax credits, grants/loans, subsidies for local manufacturing and accelerated depreciation to target select products and channels.

EXAMPLE

So far, no government has enacted blanket policies in response to COVID-19 that would require health care companies to drastically rework their manufacturing networks—and such moves remain highly unlikely. But policies that encourage the local production of specific medicines or medical products could alter the optimal supply chain configurations for some companies, particularly those that manufacture essential products. (BCG, Planning for the Unpredictable in Health Care Supply Chains, October 2020)

8. SUMMARY

Key questions for policymakers to consider in redesigning incentive policies to reflect current economic priorities include issues related to articulating goals and guardrails, ensuring the appropriateness of incentives to meeting the challenge at hand, and tapping incentives to developing long-term economic competitiveness. Following are those key policy and program questions that should be addressed.

Incentive Goals and Guardrails

Policy goals should drive incentive program design.

- What outcome is the incentive intended to achieve?
- How does the proposed incentive attain that outcome?
- How well does a financial incentive compare with alternative approaches in achieving the desired outcome?

Program guardrails can limit the state's risk when offering incentives.

- How does the incentive design ensure that businesses perform before receiving financial benefits?
- What data are accessible that would allow state officials to effectively track incentive use, cost, and outcomes?
- What fiscal controls exist to contain costs?

Using Incentives to Address Immediate Priorities

Well-designed programs can foster small business recovery.

- Which small business challenge is the program trying to address?
- How can the state provide other services to help businesses sustain their operations?
- In what ways does the program's design consider the needs of the end-user?

Incentives can help embed equitable economic development practices into the recovery.

- How do the incentives respond effectively to community priorities?

- What actions does the program take to be consistent with equitable economic development practices?
- How do incentive programs prioritize investment that benefits distressed locations and the people living in those communities?

Enhancing State Competitiveness with Incentives

Talent Development

- How do incentive and/or talent development programs encourage paid work experience?
- In what ways do incentive programs foster cooperation with workforce and education partners?
- How are talent programs aligned with industry and cluster development strategies?

Manufacturing

- How can legacy incentive programs for manufacturers be revamped to meet current needs?
- What actions do new incentive programs take to address reshoring and supply chain resiliency?

Life Sciences

- Which gaps do incentives fill in order to support the state's life sciences ecosystem?
- How do incentives use market data and manufacturing guidelines to encourage PPE and related medical device or process production?
- How do proposed incentives address supply chain vulnerability and risk mitigation?

ABOUT THE SERIES

In the economic crisis brought on by the coronavirus and COVID-19 public health concerns, state economic development executives are considering significant questions regarding how best to use incentive programs to help their states respond to the challenge. A coherent set of principles and approaches around adapting incentive use can help states respond strategically.

This is the sixth in a series of guidance papers. Please also see:

- *Adjusting Performance Agreements* - [Guide to Help States Adjust Incentive Performance Agreements in Response to the Current Economic Crisis](#) May 2020
- *Small Business Assistance* - [Guidance on Adjusting Discretionary Incentive Programs to Support Small Business Recovery](#) July 2020
- *Reporting and Evaluation* - [Incentive Adjustments, Guidance on Documenting Program Changes](#), August 2020
- *A New Approach to the But-For Question* - [Estimating the Influence of Incentives on Investment Decisions](#), November 2020
- *Remote Work* - [Addressing Remote Work in State Business Incentive Programs](#), January 2021

CREC and Smart Incentives collaborated to produce this series for the State Economic Development Executives (SEDE) Network. The SEDE Network is a forum for top State economic development and commerce officials to exchange information, learn from one another, and advance the practice and impact of economic development across the nation.