Benchmarking the Michigan Economic Development Corporation to Peer Organizations

05.2019

PSC

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Introduction

Background

The Michigan Economic Development Corporation (MEDC) serves a vital policy function—collaboratively marketing Michigan as a place to do business, assisting in business growth strategies, and fostering vibrant communities statewide. Through these efforts, the MEDC supports increased employment, income, and overall prosperity in the state.

However, the MEDC also faces challenges alongside other economic development organizations (EDOs). In a more complex global marketplace, EDOs must be capable of designing packages and programs that attract businesses and investors across the globe. The complexities of this marketplace are compounded by technological and demographic advancements as well. Autonomous vehicles, artificial intelligence, and other innovations disrupt markets, rendering some businesses and the skills of many workers obsolete. To address these challenges, EDOs must grow the economy in an inclusive way, exercising sensitivity to populations and regions in danger of being left behind and finding ways to ensure shared regional prosperity.

EDOs need to face these challenges head on and most likely do so with declining resources. With competing budget priorities from the education, infrastructure, and healthcare sectors, resources dedicated to economic development are vulnerable to diversion. As a result, EDOs may need to be more effective at leveraging partnerships with businesses, nonprofits, regional agencies, universities, community colleges, and even K–12 schools.

Michigan is not unique in having an organization charged with attracting and growing businesses and investment—EDOs in other states have similar aims. Understanding how these EDOs operate and achieve their missions and how they respond to challenges has tremendous value for Michigan and the MEDC. This is not just because Michigan competes with other states for business investment. Even in the absence of direct competition, the MEDC can leverage the most effective tools for growing businesses, building vibrant communities, marketing the state, and addressing issues of economic inclusivity. However, no matter how effectively an organization executes its mission, there is always opportunity for improvement. Using information about best practices from around the nation and trends in economic development, the MEDC can improve its efforts to ensure a prosperous future for all Michiganders.

The MEDC engaged Public Sector Consultants (PSC) to provide an in-depth look at the similarities and differences in strategies, tactics, resources, and organizational structures of EDOs across ten states—Alabama, Georgia, Illinois, Indiana, Ohio, North Carolina, South Carolina, Tennessee, Texas, and Wisconsin. Some of these states use multiple organizations to accomplish similar economic development tasks undertaken by the MEDC in Michigan. In these cases, PSC examined the entities responsible for these comparable tasks.

State Economic Development Organizations

Each of the ten benchmark states manages economic development programs, services, and staff in different public and private organizations. Some states centralize these elements into a single agency, while others divide tasks and program management across multiple departments or public-private partnerships.

State Economic Development Organizations

State	Economic Development Organizations
Alabama	Alabama Department of Commerce, Alabama Department of Economic and Community Affairs (ADECA), and Alabama Tourism Department
Georgia	Georgia Department of Economic Development (GDEcD) and Georgia Department of Community Affairs (DCA)
Illinois	Illinois Department of Commerce and Economic Opportunity (DCEO)
Indiana	Indiana Economic Development Corporation (IEDC)
Michigan	Michigan Economic Development Corporation
North Carolina	North Carolina Department of Commerce (NCDC) and Economic Development Partnership of North Carolina (EDPNC)
Ohio	JobsOhio and Ohio Development Services Agency (DSA)
South Carolina	South Carolina Department of Commerce (DOC), Jobs-Economic Development Authority (JEDA), and South Carolina Department of Parks, Recreation, and Tourism (SCPRT)
Tennessee	Tennessee Department of Economic and Community Development (TNECD) and Tennessee Department of Tourist Development (TDTD)
Texas	Texas Economic Development Corporation (TxEDC) and Governor's Office of Economic Development and Tourism
Wisconsin	Wisconsin Economic Development Corporation (WEDC), Wisconsin Department of Administration (DOA), and Wisconsin Department of Tourism

Source: Analysis completed by PSC.

Methodology

PSC applied the following methodology to accomplish the benchmarking requested by the MEDC.

Research Scan

PSC conducted a research scan on state economic development policy trends. This research included reviewing work by organizations such as the International Economic Development Council, the Brookings Institution, and the Council for Community and Economic Research, as well as research published by EDOs and academic researchers. PSC looked for emerging trends and assessments of which states are leading these efforts, using this research to determine what tools and practices were most effective as well as to frame and ground the overall project.

EDO Document Review

PSC's analysis examined both Michigan's and the ten peer states' economic development practices through a review of the following:

- Strategies, visions, and goals
- Tactics
- Metrics
- Audience segmentation
- Lead generation process
- EDO structure and organization (e.g., by region, industry, or program)
- Division of functions among agencies and across partners
- Budget analysis (e.g., agency funding, incentive funding, tax credits, and annual appropriations)
- Staffing model analysis

Peer State Interviews

To address gaps in desk research, PSC supplemented the analysis with interviews of key staff from each state. PSC engaged key EDO staff and others with knowledge of EDO activities, such as legislative staff, in the ten states identified and conducted phone interviews.

Michigan Interviews

PSC conducted a strengths, weaknesses, opportunities, and threats (SWOT) analysis of the MEDC based on the research scan assessment and analysis of peer states as well as the views and insights of key Michigan stakeholders, including senior MEDC staff and board members, leaders of regional EDOs, representatives from organizations such as the Small Business Association of Michigan and Business Leaders for Michigan, and representatives from statewide chambers of commerce. These individuals were asked to assess the strengths and weaknesses of the MEDC, articulate key challenges faced by their communities and Michigan as a whole, express their views of the MEDC's ability to address these challenges, and identify future opportunities for the MEDC to make lasting change.

Structure of this Report

The nature of this project—an 11-state comparison—means that there was a wealth of information gathered by the research team. To best aid readers in reviewing the information at both macro- and microlevels, this report has been organized into four primary sections with supporting appendices.

- Part one presents cross-state comparisons from the following eight perspectives:
  - State appropriations
  - State approaches to industry sectors and regions
  - State approaches to trade and export
  - State approaches to growing from within
  - State approaches to intrastate relocation
  - State approaches to the broader business-friendly environment
  - State approaches to the use of tax credits and grants as incentives
  - Role of state staff
- Part two generates seven cross-cutting major findings that flow from these eight perspectives.
- Part three summarizes what is known based on gathered information by:
  - Condensing parts one and two into a traditional SWOT analysis about the MEDC from the program perspective
  - Presenting a SWOT analysis of the MEDC from the perspective of knowledgeable stakeholders
  - Synthesizing the benchmark state information into a hypothetical ideal EDO for discussion purposes
- Part four presents recommendations for the MEDC.
- Supporting material is included in two appendices.
  - Appendix A presents detailed, cross-state comparison tables for quick reference, with limited commentary following most tables.
  - Appendix B contains state-by-state summaries for Michigan and each of the ten benchmark states.

Executive Summary

The practice of economic development is changing as states and researchers learn more about the impacts and costs of different approaches. This report examines the economic development organizations and programs of ten states, called benchmark states, that have similar approaches to Michigan. Michigan and the Michigan Economic Development Corporation have the opportunity to strengthen the state's position by focusing on what works and incorporating the best ideas of its peers. The themes that have emerged from the completed research and interviews are as follows:

- **Incentives remain common across states but are increasingly seen as risky—so their style, size, and design matter more than ever.** Tax incentives, the most common and often largest incentive tool used by states, are inherently risky because it is difficult to determine their impact on economic development, and recent evidence suggests that the benefits of most common tax incentives do not justify their costs. Tax incentives also make budgeting and pivoting to a different strategy in the future incredibly difficult. When recipient businesses do not meet the underlying obligations as part of the tax incentive, they can put economic development organizations in politically untenable positions—regardless of whether the tax incentive is paid or not. Michigan has historically faced challenges due to tax incentives, and the state has sought to address these challenges by shifting their focus to grants and by changing the design of their tax incentives. Several other states are shifting their focus away from tax incentives as well and are using alternative approaches as their primary business-attraction tools.
- **Talent development is a powerful and underutilized business-attraction tool.** Across the benchmark states, most EDOs continue to focus their business-attraction and retention efforts almost entirely on their tax and regulatory structure and incentives, but they don't address what many businesses consistently say matters most—talent. Several states have developed innovative strategies to supplement their core economic development incentives and programs by leveraging, coordinating, and promoting their talent development efforts as business-attraction tools. Michigan's recently launched Jobs Ready Michigan could provide the state with a comparable tool for providing job training in support of business attraction.
- **Economic development strategies that emphasize growth from within have proven more effective at delivering job growth at a lower cost than big business-attraction efforts.** Supporting entrepreneurship and growing businesses within the state is more effective at delivering job growth at a lower cost to the state. As a way to grow from within, states are focusing on developing entrepreneurial ecosystems, emphasizing programs that support and train entrepreneurs, provide access to capital, and foster new product development. Michigan's broad range of programs meets or exceeds the offerings by other states.
- **Organizational structure matters.** States use a variety of administrative structures to implement economic development. Michigan's shift to a public-private model has numerous benefits, acts as a model in the economic development community, and provides the state with a competitive advantage. Other states, in particular Ohio, have provided additional innovation in terms of organizational structure, with new approaches to customer service, regional coordination, and funding.

- **Economic inclusion is increasingly a priority as states recognize that rising inequality hinders economic growth and community development.** When income inequality rises, economic growth declines for a variety of reasons. States are using a number of different approaches to promote economic inclusion, including geographic incentives, procurement targets, and offices dedicated to supporting minority and disadvantaged businesses. Michigan has developed unique programs for economic inclusion, but there are initiatives it could borrow from other states, including the establishment of a dedicated office and the use of procurement targets.

- **Community development is ripe for innovation.** Business development remains the focus for most EDOs, even in those that manage community development as well. Community development, however, has not typically benefited from the same level of innovation that has been applied to more traditional economic development incentives, programs, and services. Some states, including Michigan, are finding new ways to use community development funds.

- **Policymakers are increasingly demanding data on the performance and value of incentives.** Incentives of all shapes and sizes are the primary tool that states use to try to spur economic growth, but the lack of consistent, high-quality impact evaluations makes it difficult to assess their effects. While states have been slow to implement evaluation programs, evaluations have proven helpful in improving policy. Michigan enacted its own law requiring the evaluation of tax incentives in 2018, and its implementation creates an opportunity to inform decision making.

Michigan and the MEDC are well positioned to take advantage of these emerging trends and best practices.

- Across the surveyed states, Michigan is among the leaders in:
    - Support for entrepreneurial ecosystems
    - Industry expertise in the automotive/mobility sector
    - Structure as a public-private partnership
    - Staffing and funding community development programs at the same level as traditional EDO programs and activities
    - Increasing its emphasis on economic inclusion with dedicated programs

- Michigan is performing comparably with benchmark states in:
    - Transitioning from a focus on tax incentives to a focus on performance-based grants
    - Emphasizing the overall business climate
    - Aligning the MEDC's staff and resources with priority industry sectors beyond automotive/mobility

- Michigan lags behind the benchmark states in:
    - Funding levels for the MEDC (when considering overall state economic activity and average funding per EDO staff member compared to other states, Michigan's numbers are low)
    - Funding and emphasizing talent development
    - Focusing on economic inclusion efforts, such as establishing a dedicated office
    - More tightly integrating talent and workforce development within the MEDC's programs

The MEDC should consider the following next steps.

- Continue to incorporate incentive program best practices, such as targeted grant- and performance-based incentives.
- Increase attention and emphasis on talent development and infrastructure development strategies as first-tier economic development tools.
- Leverage, invest in, and adapt promising practices like Pure Michigan Business Connect (PMBC) to maintain the MEDC's existing competitive advantage in the entrepreneurial space.
- Improve the strategic alignment between state and regional economic development organizations and funding flexibility, while continuing to emphasize customer service, in order to maintain the MEDC's organizational structure advantage over its competitor EDOs.
- Explore and link innovations in economic inclusion—including geographic incentives, procurement targets, and offices dedicated to the support of minority and disadvantaged businesses—building from MEDC's leadership as demonstrated through initiatives such as Community Ventures and Rising Tide.
- Leverage and expand requirements for regular and rigorous evaluations of tax incentives and use the findings to inform economic development policy and communicate the value to stakeholders.
- Keep the relative strengths—and weaknesses—of benchmark states at the forefront of the MEDC's attention.

Part One: Cross-state Comparative Analysis

This section of the report compares the economic development approaches, programs, and state-level economic development organizations from ten other states—Alabama, Georgia, Illinois, Indiana, North Carolina, Ohio, South Carolina, Tennessee, Texas, and Wisconsin—from eight specific perspectives:

- State appropriations
- State approaches to industry sectors and regions
- State approaches to trade and export
- State approaches to growing from within
- State approaches to intrastate relocation
- State approaches to the broader business-friendly environment
- State approaches to the use of tax credits and grants as incentives
- Role of state staff

For additional information, readers are encouraged to consult Appendix B (state-level case studies).

State Appropriations

Overview

The following tables show Michigan's appropriation funding in economic development as compared to other states. The first table outlines the estimated economic development funding from state appropriations in the categories used by the MEDC: administrative operations, arts and film, business investment, community vitality, and image. Given the lack of consistency in methodology across annual reports and other administrative budget documents, appropriations provide a more consistent, if not universally comprehensive, data set to compare state investments in economic development programs and services.[1] In states where these functions exist outside the EDO, funding from other organizations was included. In states where the EDO addresses functions not covered by the MEDC, these functions were not included. The second table compares these tables to population and gross state product (GSP), and it also provides the Michigan equivalent budget, which shows what each state budget would be if that state maintained its current ratio of funding to GSP at the level of Michigan's GSP. For example, if Alabama had the same size GSP as Michigan, this would translate to $354 million of appropriation funding for economic development per year as opposed to $147 million, which is Alabama's actual appropriation.

[1] Each individual state uses a unique and often opaque structure and organization for its state appropriations. Also, while these appropriations provide a valuable snapshot of resources provided by the legislature, these estimates can include programs that have been funded but discontinued or never implemented, thus overestimating the state's investment. They may also exclude programs that were funded outside the annual or biennial appropriations process, which would underestimate the state's level of effort in this area.

EXHIBIT 1.1. Economic Development Funding by State

State	Administrative Operations	Arts and Film	Business Investment	Community Vitality	Image	Total
Alabama	$23,540,842	Included elsewhere	$63,267,118	$64,136,849	$20,250,000	$171,194,809
Georgia	$12,666,680	$2,902,411	$14,507,153	$83,497,223	$11,808,887	$125,382,354
Illinois	Included elsewhere	$2,346,800	$117,757,400	$165,392,700	$63,560,900	$349,057,800
Indiana	$22,712,645	Included elsewhere	$63,937,982	$30,596,640	$12,153,523	$129,400,790
Michigan	$34,998,396	$11,150,000	$88,461,425	$86,358,284	$40,648,995	$261,617,100
North Carolina	$5,947,992	Included elsewhere	$113,391,510	$60,640,348	$2,675,930	$182,655,780
Ohio	$15,532,000	Included elsewhere	$427,018,167	$111,210,604	$21,534,000	$575,294,771
South Carolina	$21,102,880	$17,031,639	$89,882,065	$27,143,051	$40,163,262	$195,322,897
Tennessee	$7,366,700	Included elsewhere	$137,604,200	$61,119,400	$48,609,700	$254,700,000
Texas	Included elsewhere	$2,174,002	$16,921,111	$73,579,712	$37,461,921	$130,136,746
Wisconsin	$19,905,200	N/A	$24,038,200	$11,000,000	$12,644,600	$67,588,000

Source: Analysis completed by PSC.

EXHIBIT 1.2. State Budget Summary Table

State	Funding	Compared to Michigan	Michigan Equivalent Budget	Compared to Michigan
Alabama	$171,194,809	-$90,422,291	$411,781,242	$150,164,142
Georgia	$125,382,354	-$136,234,746	$113,011,589	-$148,605,511
Illinois	$349,057,800	$87,440,700	$215,577,799	-$46,039,301
Indiana	$129,400,790	-$132,216,310	$186,604,143	-$75,012,957
Michigan	$261,617,100	N/A	$261,617,100	N/A
North Carolina	$182,655,780	-$78,961,320	$171,673,730	-$89,943,370
Ohio	$575,294,771	$313,677,671	$452,576,231	$190,959,131
South Carolina	$195,322,897	-$66,294,203	$447,580,097	$185,962,997
Tennessee	$254,700,000	-$6,917,100	$370,134,652	$108,517,552
Texas	$130,136,746	-$131,480,354	$40,184,804	-$221,432,296
Wisconsin	$67,588,000	-$194,029,100	$106,837,550	-$154,779,550

Source: Analysis completed by PSC.

Comparative Analysis

- **A number of states are spending considerably more per year than Michigan.** Research shows that Alabama (+ $150 million), Ohio (+ $191 million), South Carolina (+ $186 million), and Tennessee (+ $109 million) are spending considerably more per year than Michigan on economic development, as a share of the GSP.
- **Texas is spending at a much lower rate than Michigan, yet it is leading the country in business attraction and economic growth.** Texas' lower rate of spending (- $221 million) compared to Michigan's demonstrates that Texas has other advantages in climate, talent, tax policy, and infrastructure that allow it to spend comparatively less than other states for the same or higher economic development outcome. This data consistently shows that Texas is leading its competitors despite trending downward in appropriation spending on economic development. Not only is its trend down, but it spends a much lower percentage of GSP on economic development, at $40.2 million, as compared to $262 million for Michigan and $453 million for Ohio.
- **An analysis of state appropriations suggests that Michigan's key competitors are Alabama, Illinois, Ohio, South Carolina, and Tennessee,** which are aggressively increasing their spending and focusing on similar core industries as Michigan, such as advanced manufacturing and automotive. Georgia's spending may seem relatively small, but these appropriations can be deceiving given its heavy investment in tax incentives. Indiana and North Carolina are also innovators and states to watch; however, based on their appropriation data alone, they are not keeping pace with Michigan.

State Approaches to Industry Sectors and Regions

Overview

State economic development agencies utilize development strategies based on industry sector and cluster development as well as regional engagement and collaboration within the state. Industry sector initiatives focus on specific industries that promote a state's existing competitive advantage as well as emerging industries with significant growth potential, while industry clusters focus on concentrating industry sectors in a specific geography to facilitate innovation and economies of scale. Regional strategies divide the state into different geographic areas as a means to facilitate resource allocation across the state and encourage collaboration between public and private partners in an area.

EXHIBIT 1.3. Industry Sector and Regional Approaches of the Surveyed States

State	Industry Sector Approach	Dedicated Staff by Industry	Incentives/ Funding Tied to Industry	Dedicated Staff by Region/Field Staff	Incentives/ Funding Tied to Region
Alabama	Yes	No	No	No/No	Yes—Enterprise Zones
Georgia	Yes	Yes—Centers of Innovation	No	Yes/Yes	Yes—County tier designations and Enterprise Zones
Illinois	Yes	No	No	Yes/Yes	Yes—Enterprise Zones

State	Industry Sector Approach	Dedicated Staff by Industry	Incentives/ Funding Tied to Industry	Dedicated Staff by Region/Field Staff	Incentives/ Funding Tied to Region
Indiana	Yes	No	No	Yes/Yes	Yes—Regional Cities and Enterprise Zones
Michigan	Yes	Yes—Automotive, mobility, cyber, defense	No	Yes/Yes	Yes—Renaissance Zones
North Carolina	Yes	No	Yes	Yes/Yes	Yes—County tier designations
Ohio	Yes	Yes	Yes	No	Yes—Funding to regional EDOs and Enterprise Zones
South Carolina	Yes	No	Yes	No	Yes—Funding to regional EDOs and Enterprise Zones
Tennessee	Yes	No	No	Yes/Yes	Yes—County tier designations
Texas	Yes	Yes—Aerospace, aviation, and defense	No	No	Yes—Enterprise Zones
Wisconsin	Yes	No	No	Yes/Yes	Yes—Enterprise Zones and Electronics and IT Manufacturing Zone

Source: Analysis completed by PSC.

Comparative Analysis

- **While all ten states identify priority industry sectors, few states align resources to support these sectors.** Of the ten states surveyed, only three states other than Michigan dedicate staff to support priority industries. Texas has an office of aerospace, aviation, and defense, while Michigan dedicates staff to automotive, cyber, and defense, as well as the PlanetM initiative, which is focused on mobility. JobsOhio stands apart by dedicating managing directors to each of their nine focus industries, while Georgia has established five Centers of Innovation (COIs) in line with its priority industries. When it comes to linking funding and incentives to industry, only three states—Ohio, North Carolina, and South Carolina—use industry sectors as a factor in resource allocation. These states include priority industries as a key determinant in their award of incentives, with JobsOhio limiting its signature incentives exclusively to priority industries.
- **While all states support priority industry sectors, few emphasize developing industry clusters in their strategies.** Only South Carolina, Texas, and Wisconsin use the term "industry clusters," where industry is clustered into a specific geography, and only South Carolina connects the cluster strategy to resources and incentives.

- **Georgia's COIs combine support for specific industries with physical locations across the state**. Georgia has established five offices, one for each of its priority industries—aerospace, energy technology, information technology, logistics, and manufacturing. These offices focus on facilitating research collaborations through technical assistance.
- **Ohio's "C-suite to C-suite" approach to staffing by industry is unique.** JobsOhio has an industry sector team that is focused on recruiting and providing services to the core industries identified in their strategic plan and each of these teams is led by a director that is a former executive from that priority industry. JobsOhio considers this approach a differentiator nationwide, and they cite their ability to engage industries "C-suite to C-suite" as critical to their success in supporting businesses in Ohio.
- **Most states emphasize a regional approach to economic development through dedicated staff and field offices**. Seven states allocate staff by region through field offices, and these offices seek to provide services and connections back to EDO programs. Only Texas, Ohio, and South Carolina do not. In Texas, board members of the TxEDC facilitate regional coordination. Ohio and South Carolina take a decentralized approach, partnering and coordinating with regional EDOs which take the lead for their respective regions.
- **Two states—Ohio and South Carolina—directly allocate funding to regions and emphasize regional cooperation and coordination.** Ohio and South Carolina emphasize partnership with regional EDOs, and they allocate funding to support these organizations. JobsOhio provides $10 million per year in operational and ad-hoc investment funding to regional EDOs in Ohio, and it convenes the business development leads from these organizations every six weeks to coordinate. JobsOhio attributes its success to frequent local engagement. In South Carolina, the state also funds a relatively decentralized approach to economic and community development through grants and appropriations to regional and local EDOs. The state's Department of Commerce coordinates with these EDOs to ensure strategic alignment, but these organizations are given significant discretion on how to use these resources for closing business development deals and improving roads, sites, and other infrastructure.
- **While other states do not allocate funding to regions, they incentivize development in less-developed parts of the state through a variety of methods.** Three states—Georgia, North Carolina, and Tennessee—use county tier designations, where states rank their different counties according to different measures (e.g., unemployment rate, per-capita income, and poverty rate) and then use these county tier designations in evaluating projects and awarding incentives. Alabama, Georgia, Illinois, Indiana, Ohio, South Carolina, Texas, and Wisconsin designate Enterprise Zones and provide tax credits and other incentives to projects that locate in these areas, while Michigan designates Renaissance Zones. Wisconsin stands alone in creating a special zone—the Electronics and Information Technology Manufacturing Zone—specifically to support the Foxconn deal[2]. Indiana supports geographic development through its Regional Cities initiative.

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[2] In fiscal year 2018, Wisconsin awarded $2.85 billion to Foxconn, a multinational electronics production company, through the state's Electronics and Information Technology Manufacturing Zone incentive. The deal was for the company to invest $10 billion in a 21.5 million-square-foot facility that would create 13,000 jobs. More information on this deal is included in the Wisconsin state profile.

State Approaches to Trade and Export

Overview

Export and trade development programs enable businesses to expand their market opportunities and extend the life cycle of products or services that have exhausted their existing markets. Exporting can expand the sales volume of a business and create new jobs for the local economy; however, small- and medium-sized businesses typically do not have the resources to access foreign markets (IEDC 2018). Businesses often need information about the export process, potential sales opportunities, patents, copyright, intellectual property right regulations, technical assistance and financing programs, and country-specific information related to exporting. Federal funding and state funding, along with state export and trade teams, help businesses identify opportunities to expand their exports, facilitate trade transactions, and help businesses overcome cultural, legal, and other barriers to international commerce. These teams can also leverage foreign investments and facilitate international tourism and knowledge sharing.

Comparative Analysis

- **State trade and export teams prioritize those international markets that are most likely to expand state exports and foreign investment.** Based on the ten states surveyed, the markets these states are most likely to focus on are China, Europe, Canada, and Mexico, with an additional focus on some emerging markets in the Middle East and South America. The table below identifies those surveyed states that have prioritized the same international markets as Michigan. Michigan's highest competitors in the auto industry and advanced manufacturing are highly focused on China, Canada, and Germany. One interesting competitor reflected in the table is Georgia, which has the same international market priorities as Michigan and also runs a nationally recognized trade and export program.

EXHIBIT 1.4. Michigan's International Market Priorities and State Competition

Michigan's Priority Markets	Competitor States with Shared International Market Focus
China	Alabama, Georgia, Illinois, Indiana, North Carolina, Ohio, South Carolina, Tennessee, Wisconsin
Europe	Alabama (Spain and Germany), Georgia (Germany), Illinois, Indiana, North Carolina (Germany), Ohio, South Carolina (Germany), Tennessee (Belgium and Netherlands)
Canada	Alabama, Georgia, Illinois, South Carolina, Tennessee, Wisconsin
Mexico	Georgia, Illinois, South Carolina, Texas, Tennessee, Wisconsin
Brazil	Georgia, Illinois
Middle East	Georgia (Israel), Illinois (Israel), North Carolina (United Arab Emirates), Wisconsin (Saudi Arabia)

Source: Analysis completed by PSC.

- **Trade and export programs are led by regionally based staff working with regional businesses and local partners.** All 11 states surveyed have in-state staff who are regionally located to identify the needs of regional businesses and provide services to help them connect to international markets. These services include small-business support services and services that facilitate international connections through educational opportunities, trade shows, and missions. Georgia is a high performer in this area, having received the President's E Star award, which is the nation's highest recognition that any U.S. entity may receive for providing export programs and services. Georgia had a record year in exporting in 2018 and is now the 11^{th}-largest exporting state based on dollar value of exports. Georgia's team is notable for their cooperative working relationship with their business and marketing teams on such efforts as international tours, economic summits, and other educational and business matchmaking efforts. Michigan is also considered a high performer, having also been recognized with the E Star award.

- **All of the surveyed states have international trade offices but few use state staff for this purpose.** All of the surveyed states have international trade offices that provide services to small- and medium-sized businesses, such as market research, market entry strategies, matchmaking meetings, assistance in navigating regulations, and overcoming other barriers to international trade. Some states even have dedicated full-time state staff housed abroad. For example, Texas places such a priority on developing trade with Mexico that they have a state staff person housed in Mexico, and Illinois has offices in multiple countries. The most common practice, however, is to rely on contract staff housed abroad to develop those international contacts and assist businesses and key stakeholders in accessing new markets.

- **Federal funding can enhance state export and trade efforts.** The State Trade and Export Promotion Grant Program (STEP) is a federal trade and export initiative that provides matching-fund grants for states to help small- and medium-sized businesses access the international marketplace and expand their exports. Services are provided to eligible businesses through state trade and export teams. These services can include marketing and website support to translate communications into other languages, travel costs, trade shows, and other business support that facilitates international trade. Nine of the 11 states surveyed access the federal STEP funds to enhance their efforts to expand trade and export in their state. The latest data on federal STEP awards and state matching funds are provided below. Michigan is a notable leader in leveraging and utilizing these funds, having received the highest possible award amount in 2018.

EXHIBIT 1.5. Trade Act and Export Support of the Surveyed States

State	STEP Grant Funding	Federal Award	Match	Total Project
Alabama	Yes	$151,857	$50,619	$202,476
Georgia	No	N/A	N/A	N/A
Illinois	Yes	$700,000	$233,333	$933,333
Indiana	No	N/A	N/A	N/A
Michigan	Yes	$800,000	$266,666	$1,066,666
North Carolina	No	$700,000	$233,333	$933,333
Ohio	Yes	$700,000	$233,333	$933,333
South Carolina	Yes	$360,400	$120,133	$480,533

State	STEP Grant Funding	Federal Award	Match	Total Project
Tennessee	Yes	$150,000	$50,000	$200,000
Texas	Yes	$600,000	$323,076	$923,076
Wisconsin	Yes	$300,000	$100,000	$400,000

Source: U.S. Small Business Administration 2018

State Approaches to Growing from Within

Overview

Small businesses are important drivers of economic growth. The U.S. Small Business Administration (SBA) has estimated that three in five new jobs in the United States are created by small businesses (SBA 2012). Given the importance of small businesses to economic growth, states are creating economic development strategies that focus on promoting entrepreneurship, accelerating the growth of small- and medium-sized businesses, providing access to capital for entrepreneurs and small businesses that have difficulty accessing funding, and fostering innovation through research and development (R&D) and new product commercialization.

EXHIBIT 1.6. Growth Programs of the Surveyed States

State	Entrepreneurship/ Small-business Office/Programs	Capital Access Office/Programs	Research and Development Office/Programs
Alabama	Yes/Yes	No/Yes	No/Yes
Georgia	Yes/Yes	No/Yes	Yes/Yes
Illinois	Yes/Yes	No/Yes	Yes (collocated with entrepreneurship)/Yes
Indiana	Yes/Yes	No/Yes	No/Yes
Michigan	Yes/Yes	Yes/Yes	Yes (collocated with entrepreneurship)/Yes
North Carolina	No/Yes	No/Yes	Yes/Yes
Ohio	Yes/Yes	No/Yes	No/Yes
South Carolina	Yes/Yes	No/Yes	Online resource/Yes
Tennessee	No/Yes	No/Yes	No/Yes
Texas	No/Yes	No/Yes	No/Yes
Wisconsin	Yes /Yes	No/Yes	Yes (collocated with entrepreneurship)/Yes

Source: Analysis completed by PSC.

Comparative Analysis

- **All of the states surveyed provide support to entrepreneurs and small businesses, and the majority of states have established dedicated offices for this purpose, with Indiana and Illinois standing out for the range of services offered.** Entrepreneurship and small business development programs provide potential and existing entrepreneurs with the training and technical assistance they need to start and grow their businesses. Eight of the states surveyed have offices dedicated to supporting small businesses and entrepreneurship. In an effort to become a hub for small business, Indiana, for example, supports coworking spaces, accelerators, and maker spaces, while the state's Small Business Development Center (SBDC) provides no-cost business advising on strategic planning, financial clarity, industry research reports and prospect lists, business valuation, exporting advising, technical assistance, and market research. They have a procurement technical assistance center to help businesses identify and compete for government contracts and also have counselors that help small businesses apply for federal Small Business Innovation Research and Small Business Technology Transfer grants. Indiana also has a venture capital investment tax credit that investors can claim for providing qualified debt or equity capital to early-stage firms. The Illinois Office of Entrepreneurship, Innovation, and Technology supports small businesses and startups with concierge services, technical assistance, training, information, advocacy, and access to other critical resources. It also established physical SBDCs across the state where entrepreneurs can go for free business planning and financial analysis consulting, access to business capital, market research assistance, development of business growth strategies, and assistance with expanding into new markets. Through SBDC International Trade Centers, the office also provides advice to companies interested in exporting to foreign markets. Michigan provides comparable assistance through MEDC's SBDCs, which help entrepreneurs establish businesses and assist small businesses in identifying access to capital and product and licensing networks to grow their business.

- **All ten states researched offer capital access support to accelerate the growth of small- and medium-sized businesses, and Michigan is unique in having a team dedicated to capital access.** These programs focus on supporting local businesses with limited access to capital from commercial sources due to the risks associated with developing new products. For example, the Innovation Ohio Loan Fund provides loans to Ohio companies for acquisition, construction, and related capital costs of technology, facilities, and equipment purchases in key industry sectors. Texas offers a similar program with its Product Development and Small Business Incubator Fund, which is a revolving loan program financed through bond issuances to support small businesses in the state with low-cost capital. Loan proceeds can be used for property, plants, and equipment and the loans are limited to businesses that have been in Texas for at least three years. In Indiana, the Next Level Indiana Fund is investing up to $250 million over the next five years in late-stage new businesses with connections to Indiana. Michigan is unique in having a team dedicated to capital access publicly delineated in their organizational structure, and MEDC's Capital Access Program is also unique in its structure. The program uses public resources to leverage private bank financing to provide access to capital that might not otherwise be available for small Michigan businesses. This program operates on a pooled reserve concept in which a reserve account at each participating bank protects each enrolled loan under the program. Participating banks offer Capital Access Program loans directly to companies that need credit enhancement, making it possible for these companies to receive fixed-asset and working-capital financing.
- **A few states have developed funds that specifically support technology companies.** The Illinois Growth and Innovation Fund (ILGIF) is an impact investment fund used to attract, assist, and retain technology companies in Illinois. Managed by the Illinois treasurer, the ILGIF has access to more than $700 million in capital to invest with venture and growth equity funds that in turn invest in technology-enabled businesses that are either based in Illinois or possess a significant workforce in Illinois. The Indiana 21st Century Research and Technology Fund was created in 1999 to stimulate the process of diversifying the state's economy by developing and commercializing advanced technologies in Indiana by awarding startup capital to early-stage Indiana companies focused on research and

technology. Michigan has a number of different offerings that compete in this space, including the First Capital Fund, Michigan Pre-Seed Fund 2.0, and the Michigan Accelerator Fund I.

- **While programs that support research and development are common across the states, Ohio and Georgia stand out for their investments across the board.** State programs to support research and development focus on helping companies create and commercialize technology, often at state universities. Many states have programs that support this as part of overall support for entrepreneurship, but Ohio and Georgia are leading in their commitment to research and development as a key component of their economic growth strategy. Ohio's Research and Development Investment Loan Fund provides below-market loan financing ranging from $500,000 to $5 million for projects specifically focused on research and development, with the state's Third Frontier program investing an estimated $150 million per year in technology transfer, to help firms license technology and to launch startup ventures using Ohio-developed technology. Lastly, JobsOhio is focusing on creating strategic corporate research and development centers in Ohio to support the development and commercialization of emerging technologies and products of targeted industries through its Research and Development Center Grant. In Georgia, the state has developed Centers of Innovation, housed within the EDO, that provide technical industry expertise and facilitate research collaborations and business partnerships to help key state industries accelerate their growth. Five individual centers operate statewide, with a focus on the state's core industries: aerospace, energy technology, information technology, logistics, and manufacturing. Georgia has also developed a Research and Development Tax Credit that supports Georgia companies performing research and development activities in strategic industries, such as manufacturing, biomedical, or telecommunications.

- **Michigan's range of programs to support entrepreneurs, provide capital access, and encourage research and development matches or exceeds that of other states.** Across each of these three major service areas, MEDC programs are comparable to those provided in other states. This could be considered an area of strength for Michigan. The MEDC Entrepreneur and Innovation team helps entrepreneurs find programs, services, and expert counsel to accelerate research, license intellectual property, form companies, support early-stage growth, and engage with other Michigan businesses. In terms of access to capital, Michigan provides a number of resources to entrepreneurs. Programs such as the First Capital Fund and Michigan Pre-Seed Fund 2.0 provide funding to new and early-stage technology entrepreneurs, while the Emerging Technologies Fund provides match dollars to proposals to the Small Business Innovation Research and Technology Transfer proposals. Finally, in supporting research and development, Michigan has 20 SmartZones located throughout the state. The SmartZones include business incubators and accelerators that provide various services, including business development mentoring, feasibility studies, business planning, entrepreneurial training, market analysis, and technology assessments. They also support commercialization of technologies developed by Michigan universities.

State Approaches to Intrastate Relocation

Overview

None of the state economic development organizations surveyed prioritize the relocation of businesses within a state, with the exception of economic inclusion initiatives, which incentivize investment in distressed areas of the state. Local and regional EDOs may compete for business relocation through local tax incentives, and it is often the role of the state EDO to facilitate cooperation among regional and local EDOs as opposed to competition. For example, JobsOhio convenes a meeting every six weeks of the business development leads from all of the regional EDOs as means of facilitating communication and cooperation among regional EDOs. This cooperation can also occur locally. In Wisconsin, the City of Milwaukee and its counties established a code of ethics that that forbade poaching jobs from neighboring jurisdictions—an agreement modeled after the one in Metro Denver. The counties came together to develop a regional partnership, the Milwaukee 7, an economic development organization representing seven counties in southeastern Wisconsin, and then developed a shared growth plan for the region.

Comparative Analysis

- **While no states have established statewide policies in this arena, regional cooperation is an opportunity and has been pursued locally.** The cooperative approaches established in Metro Denver have been in place for over 30 years and are considered a national model. Milwaukee explicitly followed Metro Denver's example in establishing the Milwaukee 7 and its code of ethics.

State Approaches to the Broader Business-friendly Environment

Overview

While EDOs have historically emphasized the role of incentives in promoting economic growth, all of the EDOs surveyed emphasize other factors, including workforce, infrastructure, land availability, and quality of life in promoting their state to prospective employers. According to a recent report by the Urban Institute looking at the role of tax incentives in economic development, "Corporate site selection professionals rank the availability of skilled labor and adequate land and infrastructure higher than they rank tax policy" (Francis February 2016).

States seek to address these additional economic development priorities by dedicating staff and programs to workforce development and community development, where community development includes activities to improve public infrastructure (water, sewer, and transportation) and public spaces (including main streets, riverfronts, and parks) through the use of the U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) or state-funded sources. States may group some or all of these functions under the umbrella of their economic development agency, and many states have developed programs that connect one or more of these functions as incentives for business attraction and retention. While collocation can indicate the importance a state places on these activities, there are multiple cases where state EDOs have developed separate programs to support these initiatives in the context of economic development.

EXHIBIT 1.7. Collocation of State Economic Development Functions with Workforce Development and Community Development

State	Workforce Development	Community Development
Alabama	Yes	No
Georgia	No	No
Illinois	Yes	Yes
Indiana	No	No
Michigan	No	Yes
North Carolina	Yes	Yes
Ohio	No	No
South Carolina	No	Yes
Tennessee	No	Yes
Texas	No	No
Wisconsin	No	Yes

Source: Analysis completed by PSC.

Comparative Analysis

- **Of the ten states surveyed, only three states—Alabama, Illinois, and North Carolina—collocate workforce development offices with economic development.** In these states, which all maintain a Department of Commerce, the EDO also manages workforce development programs. While these programs include federal programs to support training and placing unemployed workers, this can also include programs that focus on workforce development as a business-attraction and retention tool. The Alabama Department of Commerce developed the Alabama Industrial Development Training (AIDT) Program to recruit and train a skilled workforce to attract new industries to Alabama and facilitate the growth of existing businesses. Funded by the state's Education Trust Fund and managed by the EDO, the program provides job-specific pre-employment and on-the-job training and customized technical training programs at no cost to eligible employers, and it is highly regarded due to its close coordination with economic developers and its ability to tailor services to meet the needs of individual companies. When economic developers have a business growth or attraction project, they are able to work seamlessly with the AIDT staff to provide training services that meet the needs of the client company. Companies value the program because it is able to effectively tailor services to meet their need and deliver talented employees.

- **States are creating talent development programs that support business attraction and retention.** Similar to Alabama's AIDT, Georgia and South Carolina have developed programs focused on attraction and retention. They are managed outside of the EDO by the states' technical college systems, but they are integrated into the states' business-attraction and retention efforts and are highly regarded among industry experts and cited by companies as important parts of their decision to move to these states. These programs share a clear marketing pitch, tailored training programs developed with the business, and a customer service approach that focuses on providing potential businesses with a seamless one-stop shop for their workforce needs. They are also funded with more flexible state funding as opposed to the less flexible federal workforce funds. Georgia's Quick Start program, for example, is the oldest program of its kind in the U.S. and coordinates with technical colleges to deliver customized training in classrooms and mobile labs or directly on the plant floor. Georgia Quick Start will go to factories, learn company processes, develop manuals and tutorials, and do on-the-job training in the state, keeping the training proprietary to the company as needed. In South Carolina, readySC™ takes a similar approach, providing tailored recruitment and job training services to companies. Developed in 1961 to address outmigration, readySC™, like Georgia's Quick Start, works seamlessly with the Department of Commerce and the technical college system to meet the needs of business.

- **When it comes to community development, five states and Michigan combine economic development and community development in the same office.** Illinois, North Carolina, South Carolina, Tennessee, and Wisconsin, as well as Michigan, collocate community development programs with their economic development programs, and states such as North Carolina and Tennessee have integrated community development elements into business development programs. North Carolina utilizes federal CDBG funds to assist local units of government with public infrastructure development, including transportation, and also coordinates efforts to implement the Joint Economic Development Program, which supports transportation improvements and infrastructure that expedite industrial/commercial growth and create new jobs. North Carolina also provides infrastructure grants to lower-income rural counties and grants for public infrastructure projects that create jobs in rural communities.
- **Tennessee's FastTrack program is unique in providing grants for economic development, job training, and infrastructure.** The state's signature economic development program, FastTrack, consists of three separate grants programs, the Job Training Assistance Program, the Infrastructure Development Program, and the Economic Development Fund. All three of these programs are designed to incentivize the creation and expansion of businesses in the state, but they each take a slightly different approach. The Tennessee Department of Economic and Community Development administers the state's CDBG small-cities funds, and these resources are available to communities that are not receiving funds directly from the U.S. Department of Housing and Urban Development. While most of these funds are used for water and sewer projects, about $4 million is invested in community livability and commercial façade improvement grants.
- **While JobsOhio operates independently of state workforce and community development agencies, it recognizes the importance of the efforts by providing incentives to address both workforce and location.** The JobsOhio Workforce Grant promotes economic development, business expansion, and job creation by providing training and improving the skills of workers. Grants are provided to employers based on the number of jobs created, private investment in projects, return on investment, and project location, among other factors. JobsOhio is also interested in using the program to drive improvements in operational efficiencies and the expansion of production for participating businesses. The JobsOhio Revitalization Program focuses on helping rejuvenate sites in Ohio, where the costs of cleanup and property redevelopment exceed land value, making it difficult for the private market to support redevelopment. The program focuses on the revitalization of sites that create new investments and jobs by removing blight, increasing the local tax base, and achieving the productive reuse of property.
- **Indiana has elevated placemaking as a statewide strategy for business and talent attraction through its Regional Cities Initiative.** The Regional Cities Initiative is a significant placemaking effort aimed at making Indiana communities more competitive at attracting a skilled workforce and was designed to encourage collaboration between local communities and partners.

Regions established regional development authorities that put together development plans with projects aimed at making Indiana cities better places to live. Seven regions competed for grant funding, and Indiana used the $126 million raised from a tax amnesty to award $42 million grants to the North Central, Northeast, and Southwest Indiana regions. This initiative appears to have some similarities with the MEDC's own Redevelopment Ready Communities (RRC) effort.

State Approaches to the Use of Tax Credits and Grants as Incentives

Overview

All of the surveyed states have business-attraction and retention programs. While some emphasize tax credits and others emphasize grants, all of the states have a tool they can use to close a business-attraction or retention deal with a company.

EXHIBIT 1.8. State Signature Business-attraction Programs and the Use of Grants and Tax Incentives

State	Signature Program	Tax Credit or Grant
Alabama	Jobs Act Incentive	Tax credit
Georgia	Jobs Tax Credit	Tax credit
Illinois	Economic Development for a Growing Economy	Tax credit
Indiana	Economic Development for a Growing Economy	Tax credit
Michigan	Michigan Business Development Program	Grant
North Carolina	Job Development Investment Grant	Grant
Ohio	JobsOhio Economic Development Grant	Grant
South Carolina	Job Creation Tax Credit	Tax credit
Tennessee	FastTrack	Grant
Texas	Texas Enterprise Fund	Grant
Wisconsin	Electronics and Information Technology Manufacturing Zone	Tax credit

Source: Analysis completed by PSC.

It can be difficult to estimate the cost of tax incentives. They are frequently not reported annually in appropriation bills, and some states are reluctant to share the information and limit public disclosure. There can also be delays in reporting tax information or even delays or unknown timetables regarding when businesses will utilize the tax credits. Timothy Bartik, an economist from the W.E. Upjohn Institute for Employment Research, developed an estimate of the annual cost of tax credits.

EXHIBIT 1.9. Annual Cost of Tax Incentives Compared to Annual EDO Budgets, Population, and Gross State Product

State	FY 2019 Economic Development Budget	Ratio of Tax Credits to Economic Development Budget	Tax Credit Cost per Capita	Tax Credit Cost per $1 Million GSP
Alabama	$171,194,809	5:1	$180.32	$4,161.99
Georgia	$125,382,354	3:1	$36.05	$667.13
Illinois	$349,057,800	6:1	$174.50	$2,715.98
Indiana	$129,400,790	16:1	$310.34	$5,873.29
Michigan	$261,617,100	7:1	$172.75	$3,381.77
North Carolina	$182,655,780	5:1	$94.61	$1,798.34
Ohio	$575,294,771	2:1	$94.78	$1,711.20
South Carolina	$195,322,897	5:1	$206.39	$4,677.70
Tennessee	$254,700,000	10:1	$381.63	$7,331.89
Texas	$130,136,746	24:1	$109.42	$1,882.52
Wisconsin	$67,588,000	12:1	$134.07	$2,417.75

Source: Bartik 2017

Comparative Analysis

- **The majority of states favor tax incentives for business attraction and retention.** The most common type of tax credit is a job incentive tax credit used for general business attraction and retention, often focused on a state's identified core industries. These tax credits typically provide credits against every new job a company creates.

- **While all states provide some form of tax incentive, four states—North Carolina, Ohio, Tennessee, and Texas—are focusing on grant programs as their signature business-attraction and retention incentives.** North Carolina's Job Development Investment Grant (JDIG) is a performance-based, discretionary incentive program that provides cash grants directly to new and expanding companies, and the amount of the grant is based on the percentage of personal income tax withholdings associated with the new jobs. In Texas, the governor manages the Texas Enterprise Fund, the state's signature incentive program, which awards grants to companies considering a new project in Texas. It is specifically targeted for deal-closing purposes, and the governor, lieutenant governor, and the Speaker of the House of Representatives must all approve its use. In Ohio, JobsOhio has a number of different grant options, led by the JobsOhio Economic Development Grant, and they strategically focus their grants on the state's targeted industries. Tennessee shifted its focus away from tax incentives to grants in 2015, and it expanded use of the FastTrack program as its signature incentive.

- **The estimated annual cost of tax credits significantly outweighs the annual budgets of all state EDOs, with Indiana, Wisconsin, Tennessee, and Texas most impacted.** Based on 2017 estimates from the W.E. Upjohn Institute for Employment Research, the annual cost of tax incentives is significant when compared to the annual budgets of EDOs. According to these 2017 estimates, investments in tax incentives outpace annual budgets in several benchmark states and if the gap between appropriations and incentives continues to grow, it could make it difficult to pivot their approach based on any emerging best practices.

- **Michigan is in the top half of benchmark states in terms of estimated tax incentive cost relative to EDO budget.** With an estimated annual tax credit cost of $1.7 billion compared to a fiscal year (FY) 2019 budget of $261 million, Michigan's annual tax incentive cost is 6.6 times that of its economic development budget. This would place Michigan on par with the leading benchmark states—but just barely. Highest-performing benchmark states have incentive-to-EDO budget ratios of 1.9 to 3.0; lowest-performing benchmark states have incentives 16 or more times the size of the EDO budget.
- **Wisconsin's incentive package to secure Foxconn's investment in a new manufacturing facility is unprecedented in terms of its estimated cost and will likely limit the state's flexibility to offer incentives in the near future.** In fiscal year 2018, Wisconsin awarded $2.85 billion to Foxconn, a multinational electronics production company, through the state's Electronics and Information Technology Manufacturing Zone incentive. The deal was for the company to invest $10 billion in a 21.5 million-square-foot facility that would create 13,000 jobs. Wisconsin's Legislative Fiscal Bureau estimates that the total incentive package is actually closer to $4.5 billion when including infrastructure projects, grants, and tax incentives. This will likely limit Wisconsin's ability to offer significant incentives to other organizations in the near future.

Role of State Staff

Overview

States use different organizational structures to implement economic development policies and programs, and these organizational structures determine the role of state staff in each state, with some states leveraging public-private partnerships to address the three primary functions of the MEDC—business investment, community vitality, and image.

EXHIBIT 1.10. Role of State Staff by Function and Economic Development Budget to Staff Ratio

State	Business Investment	Community Vitality	Image	Budget per EDO Staffer
Alabama	Public	Public	Public	$989,565
Georgia	Public	Public	Public	$1,205,599.56
Illinois	Public	Public	Public	$1,530,955.26
Indiana	Public-private	Public	Public	$1,232,388
Michigan	Public-private	Public-private	Public-private	$927,720
North Carolina	Public-private	Public	Public-private	$819,084
Ohio	Public-private	Public	Public	$1,759,311
South Carolina	Public	Public	Public	$1,213,186
Tennessee	Public	Public	Public	$2,572,727
Texas	Public-private	Public	Public-private	$770,040
Wisconsin	Public	Public	Public	$469,361

Source: Analysis completed by PSC.

Comparative Analysis

- **Of the 11 states surveyed, four states, as well as Michigan, partner with state-level, public-private organizations to implement statewide economic development policies.** Indiana, North Carolina, Ohio, and Texas all leverage a public-private model for economic development. In the case of Michigan and Indiana, an independent, private organization (MEDC and IEDC, respectively) is responsible for business investment activities for the state. In Ohio, North Carolina, and Texas, the state pursues a division of labor with a private, nonprofit organization. In Ohio, the privately funded, nonprofit JobsOhio works with the DSA on business investment. In North Carolina, the NCDC contracts with the nonprofit EDPNC on activities to encourage business investment and promote the state. In Texas, the Governor's Office of Economic Development and Tourism manages business investment activities, and it partners with the nonprofit TxEDC to market and promote the state to businesses and investors.

- **States that leverage public-private partnerships are able to leverage independent sources of funding, and JobsOhio is unique in being funded entirely from private sources.** The EDPNC and TxEDC accept donations from private corporate partners. JobsOhio receives its funding exclusively through the profits from the JobsOhio Beverage System (JOBS) liquor enterprise, which is an exclusive 25-year franchise for the sale of liquor in Ohio that JobsOhio purchased from the state. With independent funding sources, JobsOhio can take a long-term approach to investments in economic development projects and does not have to adjust its funding priorities to justify annual appropriations. In 2017, JOBS and JobsOhio's combined operating revenues were approximately $1.150 billion and combined expenses were $1.04 billion. In terms of economic development programs and operations, JobsOhio had $134.2 million in expenses in 2017.

- **North Carolina and Ohio separate customer service and technical assistance functions from program management, compliance, and reporting.** In North Carolina, the private EDPNC focuses on marketing the state's advantages and engaging businesses interested in relocating and expanding in the state, but when it comes to the use of incentive programs, the EDPNC partners with the NCDC to approve and implement the programs. Ohio follows a similar path, with JobsOhio taking the lead in business engagement, but in the case of JobsOhio, they also manage their own grant and loan programs. Both states cite this focus on customer service as critical to their success in promoting economic development in the state.

- **Michigan is unique among the states surveyed in using a public-private partnership to manage community development activities.** While other states leverage public-private partnerships for economic development, Michigan is alone is using a public-private partnership for community development. In Michigan, the MEDC has community development field staff, known as the Community Assistance Team, or CATeam, working regionally throughout the state and functioning as the main point of contact for communities and developers interested in accessing MEDC community development programs and services. The CATeam connects stakeholders to technical assistance programs and incentive programs managed by the MEDC. The team is also able to work with other MEDC regional staff—business development teams—who are focused on retaining and growing existing Michigan businesses and attracting new businesses to the state. In Indiana, the lieutenant governor manages community development. In the other states using public-private partnerships, JobsOhio focuses specifically on business development work and EDPNC focuses on business investment and image.

- **States are similar in their staffing levels when comparing budgets, with some states asking their teams to do more with less.** Comparing state appropriations to staffing levels can provide a proxy for staff capacity. The average economic development budget per economic development staff person is $1.4 million. Illinois ($2.4 million) and Tennessee ($2.5 million) stand out for having a higher ratio of program dollars to staff, which could mean that they are asking their team to manage more with less staff, while Wisconsin, Alabama, Michigan, and North Carolina have a relatively lower ratio.

Part Two: Major Findings

Using the ten-state comparison analysis as a guide, this section of the report identifies major findings for how the practice of economic development is changing as states and researchers learn more about the impact and costs of different approaches. It outlines the best practices and trends in the use of incentives for business development, including talent development programs as a tool for business attraction and retention, internal growth strategies with a focus on entrepreneurial ecosystems, organizational structure, community development and inclusive development approaches, and increased focus on evaluation of economic development incentives.

1. Incentives remain common across states but are increasingly seen as risky—so their style, size, and design matter more than ever.

Summary of Findings

- Incentives remain common across states.
- Tax incentives, the largest incentive tool being used by states, are inherently risky.
    - It is difficult to determine tax incentive impacts, and recent evidence suggests that the benefits of most common tax incentives do not justify their costs.
    - Tax incentives make budgeting and pivoting to a different strategy in the future incredibly difficult.
    - When the worst happens, tax incentives put EDOs in politically untenable positions.
- Michigan has historically faced similar challenges due to tax incentives, and the state has sought to address these challenges by shifting their focus to grants and by changing the design of their tax incentives.
- Several other states are shifting their focus away from tax incentives and are using alternative approaches as their primary business-attraction tool.

Incentives remain common across states.

Nationally, there are countless examples of different types of incentives, but for the purpose of this analysis, an incentive is defined as a reward intended to induce, incite, or spur action. It is estimated that about 95 percent of all localities and states in the U.S. offer at least one incentive for economic development (Hurwitz 2015). Every benchmark state combines multiple incentives and services to attract new businesses, and it is worth exploring the signature initiatives each state uses for this purpose.

EXHIBIT 2.1. Signature Business-attraction Programs of the Surveyed States

State	Signature Program	Tax Credit or Grant	Key Benefit
Alabama	Jobs Act Incentive	Tax credit	Jobs Tax Credit—Annual refund of up to 3 percent gross payroll for new eligible employees. Investment Credit—A tax credit of up to 1.5 percent capital investment.
Georgia	Jobs Tax Credit	Tax credit	Jobs tax credit for each net new job they create (and maintain) during the following five years with additional funding for locating an expansion project in an underserved area.
Illinois	Economic Development for a Growing Economy	Tax credit	Nonrefundable income tax credit equal to 50 percent of the income tax withholdings of new jobs created in the state or 75 percent if the business expansion project is located in an underserved area.
Indiana	Economic Development for a Growing Economy	Tax credit	Jobs tax credit that allows companies to claim credits against the state income tax withholding of new employees for up to ten years, with credits not exceeding 100 percent of new withholdings.
Michigan	Michigan Business Development Program	Grant	Program that provides grants, loans, and other economic assistance to businesses that commit to creating jobs and investing in Michigan.
North Carolina	Job Development Investment Grant	Grant	Performance-based, discretionary incentive program that provides cash grants directly to new and expanding companies based on a percentage of the personal income tax withholdings associated with the new jobs.
Ohio	JobsOhio Economic Development Grant	Grant	Grant for fixed-asset and infrastructure investments by companies, including land, building, infrastructure, feasibility studies, engineering, and machinery. DSA also manages the Job Creation Tax Credit, a refundable and performance-based tax credit calculated as a percentage of payroll created by a project.
South Carolina	Job Creation Tax Credit	Tax credit	Credit that provides companies with funds for eligible capital expenditures, including property, site, and infrastructure development once they have reached agreed-upon job creation and capital investment benchmarks. Often paired with a jobs tax credit.
Tennessee	FastTrack	Grant	Three separate grant programs designed to incentivize the creation and expansion of businesses in the state: • Job Training Assistance Program provides new and expanding companies with direct funds to support the training of net new full-time employees. • Infrastructure Development Program provides funding for local governments to fund public infrastructure projects that support new and expanding companies. • Economic Development Fund provides grants to local communities to reimburse a company for eligible spending that is not already covered by the other two grants, such as capital improvements, retrofitting, and relocation of equipment.

State	Signature Program	Tax Credit or Grant	Key Benefit
Texas	Texas Enterprise Fund	Grant	Grant for closing business-attraction deals, providing $1,000 to $10,000 per job created.
Wisconsin	Electronics and Information Technology Manufacturing Zone	Tax credit	Credit that provides a sales and use tax exemption for the sale of and the storage, use, or other consumption of building materials, supplies, equipment, and landscaping services used to construct or develop a facility in an Electronics and Information Technology Manufacturing Zone.

Source: Analysis completed by PSC.

All of the surveyed states have business-attraction and retention deal-closing programs. Some emphasize tax credits and others emphasize grants, but all of the states have a tool they can use to close a business-attraction deal. All of the benchmark states rely on tax incentives to some extent, but North Carolina, Tennessee, Texas, and Ohio focus on the use of grant programs in business attraction. Tennessee continues to rely on tax credits but is working to shift a growing share of resources into strategies such as grants that provide valuable upfront capital to businesses during their initial launch and support the development of infrastructure to improve community and economic development over the long term. Tennessee is having difficulty making this shift because of the nearly $1 billion in legacy costs from commitments made during a previous period of over reliance on tax credits. In the rest of the benchmark states, while they all have long lists of programs, services, and incentives, budgets show that their business and capital investment attraction and retention efforts are primarily driven by tax credits.

Tax incentives are the largest incentive tool used by states in terms of overall cost. It can be difficult to estimate the cost of tax incentives. They are frequently not reported annually in appropriation bills, and some states are reluctant to share the information and limit public disclosure. There can also be delays in reporting tax information or even delays or unknown timetables regarding when businesses will utilize the tax credits. Despite these difficulties, the W.E. Upjohn Institute for Employment Research has developed an estimate of the annual cost of tax credits. The estimated annual cost of tax credits significantly outweighs the annual budgets of all state EDOs, with Indiana, Wisconsin, Tennessee, and Texas most impacted. Based on the institute's estimates, the annual cost of tax incentives ranges from 1.9 (Ohio) to 23 (Texas) times the annual EDO budgets for the ten surveyed states, with Michigan's annual cost being approximately 6.6 times the annual budget for the MEDC. In comparing state incentives with their annual EDO budgets, Indiana, Wisconsin, Tennessee, and Texas show the largest ratio of incentives to budget.

Tax incentives, the largest incentive tool being used by states, are inherently risky.

These large investments are inherently risky because it is difficult to determine their impact without regular and rigorous compliance checks and impact evaluations. Many tax incentive programs include little funding for these important tasks, which can make it difficult for EDO and state leadership to make the case for future investments. For example, in Tennessee, a literature review compiled as part of a recent evaluation of the state's largest tax incentives found no significant impact or sometimes even negative impact due to tax credits across almost all of the studies they reviewed (Hurwitz 2015). While the authors recognized the difficulty of capturing job growth in a local context, they made the case that impacts were often too small to be determined, which is not a promising sign given incentive size.

Another recent analysis that evaluated 128 state hiring credits found that a “refundable” tax credit, which allows a company to receive a cash payment from the government if the value of the credit goes beyond their tax liability, was the only type of tax incentive that showed a positive impact on employment (Neumark and Grijalva 2013). These refundable credits did produce positive benefits associated with the use of claw-back provisions, which allow a state to get money back if a company fails to meet its established investment- and job-related benchmarks. The use of these provisions should be considered a critical component of any upfront incentive because it allows a state to ensure accountability and recover taxpayer resources if they are not actually being used to support agreed-upon capital investment or job creation and retention targets. For every other job tax credit, the authors of the study found that the estimated impacts were negative, though not statistically significant.

Tax incentives make budgeting and pivoting to a different strategy in the future incredibly difficult.

Compounding the challenges of tax incentives are the often lengthy rollover periods that allow companies to wait to claim credits years after they are awarded. Many of these tax incentives can be rolled over and claimed at any point during a ten- to 15-year period. Businesses are likely to heavily discount the future reduction of their tax liability, placing a higher priority in their decision making on addressing upfront costs, which further reduces the value of this type of incentive. In addition to not addressing core business concerns, the rollover nature of tax credits creates significant budget uncertainty for policymakers. This not only makes it challenging for the state to develop the accurate long-term revenue assumptions that are critical for budgeting, but it also puts the EDO and the state in a difficult position if companies claim credits during difficult budget years and roll them over during better economic conditions. This uncertainty also opens the door for additional political backlash and restrains an EDO from making a full pivot to a different strategy given the amount of resources that are tied up in future commitments.

When a major investment of limited taxpayer dollars fails to deliver the expected outcomes, tax incentives put EDOs in politically untenable positions.

While many have argued that tax incentives might not be good policy, but good politics, even that argument must be reexamined given recent stories and the changing political winds in states across the country. This shift in thinking comes after several large tax incentive efforts have drawn local, regional, and national media attention. The larger the incentive, the more difficult it is to determine whether or not it will deliver a strong return on taxpayer investments, which in turn can make them more difficult to defend. The recent backlash to the several major economic development projects is a clear example of the dangers of engaging in high-stakes tax incentive battles. Wisconsin and its primary EDO experienced just this when the Foxconn project (during which large incentives were provided for promised jobs which may never be created) drew massive attention from gubernatorial candidates, media, and policymakers across the country, stymieing future efforts to shift toward different approaches to economic development. This project was the driving force behind current Gov. Tony Evers campaigning on dissolving the Wisconsin Economic Development Corporation. While he has since backed away from that pledge, the EDO will be facing serious budget and policy questions moving forward that may limit its flexibility and ability to take bold action.

Michigan has historically faced similar challenges due to tax incentives, and the State has sought to address these challenges by shifting focus to grants and changing the design of tax incentives.

Michigan continues to face costs due to its earlier use of the Michigan Economic Growth Authority (MEGA) tax credit as its signature tax incentive. Initiated in 1995, MEGA provided tax incentives to companies for creating and retaining jobs, but due to many of the challenges outlined above, the program led to higher-than-anticipated long-term costs to the state even after it was discontinued in 2011. According to a November 2016 memo from the Michigan Strategic Fund (MSF), Michigan's estimated liability due to MEGA tax credits is $7.3 billion through 2030 (Arwood and Khouri 2016). These costs are reflected in estimates for Michigan's annual tax credit cost.

Michigan has sought to avoid the challenges of the past by switching its focus to a grant program, the Michigan Business Development Program (MBDP), as its signature incentive, and by changing the design of its tax incentives. The MBDP is the state's signature incentive program for attracting and recruiting businesses to Michigan. It provides grants, loans, and other economic assistance to businesses that commit to creating jobs and investing in Michigan, and it includes claw-back provisions in case companies are unable to fulfill their commitments (MEDC 2018b). Michigan spends around $60 million annually on this effort.

In 2016, Michigan established a new job tax credit incentive, the Good Jobs for Michigan Program. The Good Jobs for Michigan Program provides companies with 50 or 100 percent of state tax withholding on new jobs for large-scale job creation projects in the state. The program seeks to mitigate its long-term risks by placing a cap on the number of projects per year at 15 and a rolling cap on the total obligation at $200 million. The program is scheduled to end in 2019. Currently, MSF has approved three projects under this program.

Several other states are shifting their focus away from tax incentives and using alternative approaches as their primary business-attraction tool.

Despite the inherently risky nature of any incentive for business expansion or relocation, several other benchmark states are incorporating best practices and making a more fundamental shift toward grant-based incentives, as opposed to those reliant on the large and long-term abatements of income, corporate, and other taxes. Four of the surveyed states—Texas, Tennessee, North Carolina, and Ohio—are focusing on grant programs as their signature business-attraction and retention incentives. Two states, Tennessee and North Carolina, have developed innovative approaches that Michigan should be aware of.

Tennessee

As mentioned previously, Tennessee has begun to shift resources away from tax incentives and toward its signature FastTrack program, which consists of three separate grant programs designed to incentivize the creation and expansion of businesses in the state. Between 2007 and 2015, the state aggressively increased its use of tax incentives, causing serious long-term financial difficulties (Bartik 2017). The over $1 billion in legacy costs has both been a driving factor in the state's transition away from tax incentives and a barrier to making this shift. Over the last three years, however, the state has made significant investments in FastTrack. The program went from over $81 million in funding in FY 2017 to over $117 million in FY 2019.

The FastTrack program consists of three separate grant programs designed to incentivize the creation and expansion of businesses in the state. This innovative approach seeks to combine job training, infrastructure development, and grants to local communities as part of its deal-closing strategy. It is designed to be a coherent program that makes it easy for business clients to understand and access. It also provides services in a way that may generate greater public support than traditional cash grants or tax credits for businesses. This program also partners with locals and encourages their support. The state's primary EDO, the TNECD, works directly with these local officials to identify water, sewer, rail, telecommunications, and other site improvements that will benefit a specific company investing and creating jobs in the area. Local communities must also provide matching funds.

This program has also benefited from being far more transparent with the state's tax incentives. Companies receiving these grants produce baseline and performance reports that are posted publicly on the TNECD website. While these reports are a step in the right direction, there has been criticism that the program needs to be stricter on compliance and commit to rigorous evaluation to determine its true impact. A 2014 audit, for example, found that several companies were behind schedule on job creation targets and had reported different numbers to different divisions within the EDO.

North Carolina

Unlike many states, North Carolina does not rely heavily on tax incentives to support economic development, limiting its tax incentives to sales tax incentives on purchases related to specific industries, such as manufacturing, data centers, and film. The state's flagship program, the JDIG, provides grants directly to companies by using tax withholding from new jobs. This performance-based, discretionary incentive program provides cash grants directly to new and expanding companies. The amount of the grant is based on a percentage of the personal income tax withholdings associated with new jobs, and it is calculated by weighing a number of factors, including the location of the project, the county tier designation (to encourage development in less-developed areas), the number of net new jobs, the wages of the jobs compared to the county average, the level of investment, and whether the industry is one of the state's 11 targeted industry sectors (EDPNC n.d.c).

This program is particularly interesting for Michigan because North Carolina uses a hybrid privatization approach to economic development, which, while different from Michigan's approach, is more similar than many of the other benchmark states in the south that have cabinet-level agencies serving as the main EDO. The Economic Development Partnership of North Carolina, a nonprofit, works on a contract basis with the North Carolina Department of Commerce. While the EDPNC focuses on business development, marketing, and tourism promotion, the NCDC manages and administers the key incentive programs used to support new and expanding businesses in the state.

North Carolina has also prioritized clear and transparent criteria for this incentive program. There are a number of basic requirements for eligibility, including that the project must be in competition with sites outside North Carolina and the project must increase net employment, meaning it is not a job retention program. The amount of a JDIG award is calculated by weighing a number of factors to determine its potential value, including the location of the project, the county tier designation, the number of net new jobs, the wages of the jobs compared to the county average wage, the level of investment, and whether the industry is one of the state's targeted industry sectors. Grant funds are disbursed annually following the satisfaction of performance criteria set out in grant agreements (EDPNC n.d.c).

This has likely played a key part in the program's ability to survive multiple administrations from different political parties, which speaks to its sustainability. Michigan's own business development team has similarities to JDIG in so far as it cites that the MSF may consider a number of factors similar to that of JDIG, but it is unclear to what extent these factors are utilized in practice.

EXHIBIT 2.2. Summary of Best Alternative Approaches to Tax Incentives

State	Signature Program	Best Practice to Consider	MEDC Advantage
North Carolina	Job Development Investment Grant	Sustainable/lasting approach that uses transparency and clear criteria	Target to core industries
Tennessee	FastTrack	Shift from tax incentives to grants and use a coherent/well-rounded strategy	Improve transparency and evaluation

Source: Analysis completed by PSC.

2. Talent development is a powerful and underutilized business-attraction tool.

Summary of Findings

- Across the benchmark states, most EDOs focus their business-attraction and retention efforts almost entirely on their tax and regulatory structure and incentives, but they don't address what many businesses consistently say matters most—talent.
- Several states have developed innovative strategies to supplement their core economic development incentives and programs by leveraging, coordinating, and promoting their talent development efforts.
- Michigan does not have a job training program focused on new business attraction, and this places it at a competitive disadvantage.

Across the benchmark states, most EDOs focus their business-attraction and retention efforts almost entirely on their tax and regulatory structure and incentives, but they don't address what many businesses consistently say matters most—talent.

Every benchmark state focuses on promoting its business and regulatory environment, along with key economic development programs, services, and incentives, when pursuing business attraction. States with low corporate income taxes highlight their tax-friendly environment, while those with generous incentives try to sell the true cost of doing business in their state. There are countless industry reports calling for states to offer competitive income, property, sales, and other tax rates and review their regulatory framework to ensure that rules do not create a burden for businesses looking to start or expand in a state. In 2011, a Kauffman Foundation poll found that while a small percentage of top firms were most concerned about tax rates and regulatory uncertainty as impediments to their growth, 40 percent of these top businesses were most concerned about their ability to find qualified people. That poll was taken during an era of high unemployment, and since that time, the importance of talent has likely only increased during tighter labor market conditions. With talent development as a key concern for businesses, there are only a few states that have recognized this challenge and built innovative approaches to use their ability to supply and train a skilled workforce as part of their business-attraction efforts.

Several states have developed innovative strategies to supplement their core economic development incentives and programs by leveraging, coordinating, and promoting their talent development efforts.

The following table shows high-quality and well-regarded programs that expanding and/or relocating companies say were an important part of their decision making. Each program varies in approach and design, but each provides unique advantages and disadvantages. In the cases of Louisiana and South Carolina, both programs have proven impactful at a relatively low budget of $5 million and $4 million, respectively.

EXHIBIT 2.3. Talent and Economic Development Programs

State	Program	Focus	Estimated Funding	Who Qualifies?	Key Benefit
Georgia	Quick Start	Business attraction and retention	$12 million	New and expanding businesses	Versatile and highly rated approach
Louisiana	LED FastStart	Business attraction	$5 million	New and expanding businesses	One-stop shop and customer service approach
South Carolina	ReadySC™	Business attraction	$4 million	New and expanding businesses	One-stop shop and customer service approach

Source: Analysis completed by PSC.

Georgia

Georgia's Quick Start program, which is managed by the Technical College System of Georgia, is the oldest program of its kind in the U.S and delivers customized training in classrooms and mobile labs or directly on the plant floor. This program goes directly to factories, learns company processes, develops manuals and tutorials, and performs on-the-job training in the state, keeping the training proprietary to the company as needed. These services are free to qualified new businesses as well as those expanding their workforce or adding new technology. Georgia has opted to fund this program with state dollars, as opposed to federal funds, which creates space for innovation and flexibility in workforce development, but also leaves the program vulnerable to cuts if it loses support during a legislative appropriation process in the future. In 2017, a survey conducted by a site locator's trade publication named Quick Start the best workforce training program in the country for the eighth consecutive year in a row. The report on the survey noted that Quick Start has delivered thousands of training programs and has been the deciding factor for many companies choosing Georgia over the years (D'Alessio 2017).

Louisiana

Though not one of the ten states surveyed, Louisiana is one of the nationwide leaders in business attraction and retention. Louisiana Economic Development's FastStart (LED FastStart), launched in 2008, was cited by *The Economist* as "one of the most notable statewide workforce development programs" in the nation (Louisiana Economic Development n.d.). Its mission is to provide customized employee recruitment, screening, training development, and training delivery for eligible new or expanding companies at no cost to the companies. It is housed under Louisiana Economic Development, reflecting the importance the state places on talent. LED FastStart has a budget of $5 million per year ($1.06 per capita), provided through the economic development budget of the state's general fund. LED FastStart's emphasis on state funding is by choice, and the program does not access federal funding because, according to representatives, this funding is bureaucratically burdensome and the program prioritizes flexibility in developing and implementing job training programs. LED FastStart can also request additional funding to support job training from the legislature on a case-by-case basis. This additional flexibility helps the program to respond to businesses' needs.

LED FastStart serves as Louisiana's "one-stop shop" for new and expanding businesses. It is the primary employer point of contact from the beginning of a company's hiring process, working with employers to identify their workforce needs. It then identifies the resources and capabilities necessary to meet these needs, working with state agencies and higher-education institutions. FastStart develops curricula specific to the employer, and it will either fund and provide this training directly or it will provide funding to the appropriate technical college or four-year university to implement the training on its behalf. Once the initial employer engagement is complete, FastStart will give the training curriculum and equipment to the appropriate technical college. The program will also build training facilities, purchase equipment, and assist with recruitment across the state. On average, FastStart has 85 open projects at any given time, and while many of these are short term, the program will also provide long-term training support, building and maintaining relationships with employers over time.

One example of LED FastStart's approach is their support for the recent expansion of CSRA Inc. to Shreveport. CSRA is a Fortune 500 IT company that was interested in building a new, integrated technology center. While Louisiana and, in particular, northwestern Louisiana, did not have a significant track record in IT talent development, LED FastStart funded and led a three-and-a-half-year effort to develop a talent pipeline in the largely rural area around Shreveport, coordinating representatives from the local community college, Bossier Parish, as well as from technical and four-year colleges to develop associate's, bachelor's, and master's degree programs in cyberengineering, cybersecurity, and computer science.

South Carolina

ReadySC™, led by the Division of Economic Development within the state's technical college system, is not a typical grant or incentive program, but instead works closely with qualifying expanding or relocating businesses to supply them with their initial workforce. The program works with the state's 16 technical colleges to develop customized recruitment and training solutions, cover instruction expenses, coordinate with local partners to identify and upgrade a state-of-the art training space, and provide full-time project management. Companies must be willing to invest in a significant number of permanent jobs with competitive wages and health insurance to ensure that the program can provide these services in a cost-effective way. The program trained over 5,000 workers and served 88 companies, primarily in manufacturing, in FY 2017–2018 and has received awards for its train-the-trainer approach.

ReadySC™ serves as the first point of contact for businesses, working alongside representatives from the South Carolina Department of Commerce to recruit and support companies looking to expand. South Carolina receives high marks for the seamless way in which it engages companies, and South Carolina job training professionals pride themselves on how coordinated they are, presenting businesses interested in expansion and relocation with a single point of contact and a clear and consistent message about how South Carolina can help them succeed.

When supporting companies, readySC™ is proactive in developing training and curriculum. The program will work with companies to create training programs, visiting a company's headquarters and facilities as needed to develop a program that not only meets the company's needs but provides a level of customer service that sets the state apart. As the engagement with employers moves from relocation to implementation, readySC™ leverages its relationship with the technical college system, coordinating with the colleges best suited to deliver training on the company's behalf.

Before 2015, Mercedes-Benz Vans employed about 130 Charleston County residents, but that year, the state was able to secure a $500 million investment in a manufacturing plant that hired an additional 1,100 workers. In 2019, the company announced its plan to hire a third shift, with the goal of employing 1,300 workers by 2020 for this effort (Segrist 2019). The readySC™ program—leveraging funding and a close partnership between a local technical college, the broader technical college administration, and the state commerce department—recently purchased, retooled, and opened a new 30,000-square-foot training center at the Trident Technical College, which has been augmented to match the exact equipment used at the plant. This will provide workers with an ideal training environment as they prepare to launch the third-shift operation. In addition to providing this training facility, the readySC™ program has assisted with recruiting for open positions, creating training programs with companies, and hiring trainers to teach in the center in advance of its launch.

This program advances the mission of the technical colleges and the state's EDO by not only attracting new and expanding companies to the state but also providing the workforce development tools necessary to make certain they grow and prosper over the long term. The state clearly values this contribution to economic development and sees this program as part of a comprehensive solution for companies looking to relocate or expand their operations in the state. South Carolina's governor recently released the FY 2019–2020 budget, which included $1 billion in new revenue and tripled the state's investment in the readySC™ program (McMaster 2019).

Michigan's recently launched Jobs Ready Michigan could provide the state with a comparable tool for providing job training in support of business attraction.

Michigan has, until recently, relied on two programs to support expanding businesses in Michigan, the Skilled Trades Training Fund (STTF) and the Michigan New Jobs Training Program (MNJTP), but neither program has proven well suited to business attraction. STTF is a $13.1 million workforce development program focused on supporting Michigan companies with training for existing and new employees, and the Talent Investment Agency (TIA) administers it through local Michigan Works! Associations. The MNJTP is a $24 million program that leverages Michigan's 28 community colleges to provide free job training for employers that are creating new jobs and/or expanding operations in Michigan. Both STTF and MNJTP are managed locally, and there has not been emphasis on providing a single point of contact for businesses interested in expanding to Michigan. Both are also primarily targeted to supporting existing Michigan companies.

However, in April 2019, the MEDC approved a new program, Jobs Ready Michigan, to provide grants for business expansion and relocation projects in Michigan. The program is being administered under the MBDP, the state's flagship business-attraction tool (Achtenberg 2019). While the program is too new to evaluate, it has the potential to fill a gap in Michigan's economic development portfolio and help the state compete nationally.

3. Economic development strategies that emphasize growth from within have proven more effective at delivering job growth at a lower cost than big business-attraction efforts.

Summary of Findings

- Supporting entrepreneurship and growing businesses within the state is more effective at delivering job growth at a lower cost to the state.
- As a way to grow from within, states are focusing on developing entrepreneurial ecosystems.
- Michigan's broad range of programs to support entrepreneurs meets or exceeds the offerings of other states.

Supporting entrepreneurship and growing businesses within the state is more effective at delivering job growth at a lower cost to the state.

Most EDOs are focused on business attraction as their core economic development function, and this gives the impression that this type of approach is the most effective way to deliver jobs to a state. Research uncovers a more complicated narrative and points to a more balanced approach to economic development that accounts for the costs associated with business attraction and the benefits of focusing on growing from within.

Tax incentives, regulatory changes, and generous grants are often required to attract businesses from other states and countries and have both direct and indirect costs to states. It is difficult to determine if these strategies directly result in a business deciding to move or invest. In addition to losing the ability to use that revenue for other state services, the opportunity cost of these efforts is also important to consider. This is particularly challenging, as research and evaluations that are able to isolate the impact of business-attraction incentives on corporate decision making are relatively rare. If the EDO is primarily focused on bringing in new companies and providing them with lucrative incentives, it is difficult to spend time and resources on the entrepreneurs and small businesses that research suggests will create the bulk of the state's jobs.

In recent years, research suggests that the majority of economic growth and job creation actually comes from small businesses and entrepreneurs. Nationally, between 1993 and 2016, small businesses accounted for 61.8 percent of net new jobs, according to the U.S. Small Business Administration. Recently, the SBA estimated that three in five new jobs in the United States are created by small businesses. There is also some evidence that a broad-based, grow-from-within state strategy that supports small businesses and entrepreneurs can help mitigate volatile job losses in a recession by spreading out employment among a broader and more diverse set of businesses.

Research from the W.E. Upjohn Institute published in 2018 suggests that "customized business services, such as specialized job training and manufacturing extension, can be ten times as effective as tax incentives in creating local jobs" (Bartik 2018). The author also found that these services are most useful to small- and medium-sized businesses, because they often lack the financial and informational resources of larger businesses. Also, locally owned businesses spend more on nearby suppliers and retailers, which can provide a multiplier on job creation and economic activity in their community. Another 2018 research study stated that a more balanced economic development budget recognizes that employment gains can come from a wide range of economic development activities and that knowledge should inform prioritization and decision making, particularly with regards to common business-attraction efforts like tax incentives (Donegan, Lester, and Lowe 2018).

As a way to grow from within, states are focusing on developing entrepreneurial ecosystems.

Given the importance of small business and entrepreneurship to economic growth, state EDOs can play a critical role in promoting an ecosystem of entrepreneurship. Entrepreneurs are small and medium-sized businesses in the early stages of development, and they are typically focused on identifying and exploring new products, processes, or markets. Entrepreneurial ecosystems, borrowing a term from biology, are the different elements that form the environment in which entrepreneurs operate. According to the Babson Entrepreneurship Ecosystem Project, this ecosystem can include financial capital, human capital (talent and educational institutions, supports [including nonprofits, incubators, and infrastructure] that influence entrepreneurs in starting and growing their businesses), policies (leadership and government support), culture, and markets (including customers and networks) (Isenberg 2011).

EDOs have also focused on supporting entrepreneurial ecosystems through three specific program areas: creating and improving entrepreneurship and small-business development programs that improve human capital; providing access to financial capital; and promoting research and development through supporting institutions, nonprofits, and commercialization services.

Entrepreneurship and Small-business Development Programs

Entrepreneurship and small-business development programs provide potential and existing entrepreneurs with the training and technical assistance they need to start and grow their businesses. Incubators are one of the many initiatives used for entrepreneurship development, but programs also include technical assistance, financing, legislation, marketing, accounting, and networking (IEDC 2017). All of the states surveyed provide support to entrepreneurs and small businesses, and eight of the states surveyed have offices dedicated to supporting small business and entrepreneurship.

In an effort to become a hub for small business, Indiana, for example, supports coworking spaces, accelerators, and maker spaces, while the state's Small Business Development Center provides no-cost business advising on strategic planning, financial clarity, industry research reports and prospect lists, business valuation, exporting advising, technical assistance, and market research. They have a procurement technical assistance center to help businesses identify and compete for government contracts and also have counselors that help small businesses apply for federal Small Business Innovation Research and Small Business Technology Transfer grants. Indiana also has a venture capital investment tax credit that investors can claim for providing qualified debt or equity capital to early-stage firms.

As another example, the Illinois Office of Entrepreneurship, Innovation, and Technology supports small businesses and startups with concierge services, technical assistance, training, information, advocacy, and access to other critical resources, and it established SBDCs across the state where entrepreneurs can go for free business planning and financial analysis consulting, access to business capital, market research assistance, development of business growth strategies, and assistance with expanding into new markets. Through SBDC International Trade Centers, the office also provides advice to companies interested in exporting to foreign markets.

Access to Capital

Capital access is another key area of business support offered by the EDOs surveyed. All ten states researched offer capital access support to accelerate the growth of small- and medium-sized businesses. For example, the Innovation Ohio Loan Fund provides loans to Ohio companies with limited access to capital from commercial sources due to the risks associated with developing new products. The loan provides financing for acquisition, construction, and related capital costs of technology, facilities, and equipment purchases in key industry sectors. Texas offers a similar program with its Product Development and Small Business Incubator Fund, which is a revolving loan program financed through bond issuances to support small businesses in the state with low-cost capital.

In 2006, Indiana established a $500 million fund known as the Next Generation Trust Fund, which was created using part of the $3.8 billion the state received from leasing the Indiana Toll Road (Wilson 2017). In 2017, the Next Generation Trust Fund was replaced by the Next Level Indiana Fund, which will invest up to $250 million in late-stage new businesses with connections to Indiana. This fund will make targeted investments in Indiana venture capital funds and Indiana businesses in order to "generate competitive investment performance and support increased entrepreneurship and innovation in the state" (Schoettle 2018).

Research and Development

Research and development and state programs to commercialize technology developed at state universities make up a large part of business assistance. For example, Ohio's Third Frontier program is budgeted to invest an estimated $150 million annually in technology transfer to help firms license technology and to assist startup ventures that use Ohio-developed technology. Ohio's Research and Development Investment Loan Fund provides below-market loan financing ranging from $500,000 to $5 million for projects specifically focused on research and development. Lastly, JobsOhio, the state's primary EDO, is focusing on creating strategic corporate R&D centers in Ohio to support the development and commercialization of emerging technologies and products of targeted industries through its Research and Development Center Grant.

Increasingly, states are considering incubator and accelerator programs for startups. Incubators strive to accelerate the successful development of new ventures through low startup costs and provide specific objectives, such as technology development or neighborhood revitalization. These programs are launch pads for startups to hone their pitch and product through intensive mentoring and training. In contrast to incubators, which provide permanent space and facilities, accelerator programs are discrete, time-limited programs. The idea is that the accelerator can help startups build enough investor confidence to attract financing (IEDC 2017).

The Wisconsin Center for Technology Commercialization is an example of public investments to promote and stimulate new ventures, and provides support for entrepreneurship, capital access, and research and development in one location. It offers programs such as Lean Startup, Small Business Innovation Research/Small Business Technology Transfer assistance, and business planning. Lean Startup explores the business validity and commercial prospect of a new technology. With coaching on the business model, entrepreneurs can develop a workable business plan to obtain financing and other resources. The center is jointly funded by the University of Wisconsin Extension, the Wisconsin Economic Development Corporation, and the SBA (Francis 2016).

Michigan's broad range of programs to support entrepreneurs meets or exceeds the offerings of other states.

The MEDC's support for entrepreneurs and small businesses, which are essential elements of a robust and coherent strategy to grow from within, includes many of the programmatic elements implemented in these leading states.

The MEDC Entrepreneur and Innovation team helps entrepreneurs find programs, services and expert counsel to accelerate research, license intellectual property, form companies, support early-stage growth and engage with other Michigan businesses. The Michigan SBDC, headquartered at Grand Valley State University, operates 11 regional offices and 20 satellite offices, which focus on helping entrepreneurs establish businesses and assist small businesses in accessing capital and product and licensing networks to grow their business. The SBDC also has a Tech Team of consultants that support the launch of high-tech companies. In addition to these programmatic supports, the state's First Capital Fund and Michigan Pre-Seed Fund 2.0 provide funding to new and early-stage technology entrepreneurs. The Emerging Technologies Fund provides matching funds to strengthen Small Business Innovation Research and Technology Transfer proposals. Michigan has also created 20 SmartZones across the state that provide various services, including business development mentoring, feasibility studies, business planning, entrepreneurial training, market analysis, and technology assessments. They also support commercialization of technologies developed by Michigan universities.

4. Organizational structure matters.

Summary of Findings

- States use a variety of administrative structures to implement economic development.
- Michigan's shift to a public-private model has numerous benefits and has been seen as a model in the economic development community, providing the state with a competitive advantage.
- Several benchmark states, including Ohio and North Carolina, have incorporated organizational innovations related to customer service, regional coordination, and funding.

States use a variety of administrative structures to implement economic development.

Some states, like Michigan and Indiana, consolidate economic development functions into a single private entity, while others, such as Illinois, consolidate efforts into a single public entity. Tennessee consolidates business and community development into a single public entity, but a separate department covers tourism. Ohio, North Carolina, and Texas have a state department that partners with a private entity to implement statewide economic development initiatives. With Ohio and North Carolina, the private entity has a narrower focus on business development than the MEDC, and the community development programs are covered by those states' governmental agency. Texas' private entity is focused on tourism and marketing, rather than business development. Still other states, such as Alabama and Georgia, have multiple state-level departments dedicated to economic development, with one focused more narrowly on business development and tourism and the other focused on community development. South Carolina has a more decentralized approach, granting funding to local EDOs to implement state business development efforts.

EXHIBIT 2.4. State EDO Organizational Structures

Single State-level, Public-private Partnerships	
Indiana	The IEDC is a public-private partnership that functions as the state-level entity with primary economic development responsibility in Indiana.
Michigan	The MEDC is a public-private partnership entity that leads business investment, community vitality, and image efforts for the state.
Single State-level, Public Agencies	
Illinois	The Illinois Department of Commerce and Economic Opportunity is the state agency that leads economic development in Illinois.
South Carolina	South Carolina is led by a single public agency that coordinates other state agencies and works closely with local EDOs in a more decentralized model. The DOC is the agency leading business attraction, job creation, business services, and community development efforts in the state. The South Carolina Coordinating Council for Economic Development (CCED), is an entity consisting of 11 state agencies led by the DOC, including the departments of Revenue, Agriculture, Transportation, and Employment and Workforce, that coordinates state resources to support economic development.

Multiple Public Agencies	
Alabama	There are three state-level departments responsible for economic development in Alabama: • Alabama Department of Commerce: The lead agency for business attraction, retention, and growth • Alabama Department of Economic and Community Affairs: The lead agency for community development • Alabama Tourism Department: The lead agency for promoting the state's image and tourism industry
Georgia	There are two state-level departments responsible for economic development efforts in Georgia: • Georgia Department of Economic Development: The lead agency for business investment and image • Department of Community Affairs: The lead agency for community development
Tennessee	There are two agencies in Tennessee that handle economic development and tourism: • Department of Economic and Community Development: An agency that coordinates economic development services for communities, businesses, and industries in the state • Department of Tourist Development: The entity leading tourism promotion and marketing efforts
Wisconsin	There are three public agencies that promote economic development and tourism in Wisconsin: • Wisconsin Economic Development Corporation: The entity that leads economic development efforts • Department of Administration: The agency that administers the state's CDBG • Department of Tourism: The agency that leads tourism promotion, marketing, and several small grant programs
Mixture of Public and Private Agencies	
North Carolina	There are two state-level organizations responsible for economic development in North Carolina: • Economic Development Partnership of North Carolina: A nonprofit working on a contract basis with the state that focuses on business development, marketing, and tourism promotion • North Carolina Department of Commerce: A public agency that manages and administers the key incentive programs used to support new and expanding businesses in the state
Ohio	There are two state-level organizations responsible for economic development in Ohio: • JobsOhio: A private, nonprofit corporation that focuses on business development • Development Services Agency: A state government agency responsible for other economic development efforts
Texas	Texas supports economic development through two organizations: • Texas Economic Development Corporation: A private, nonprofit corporation that focuses on promoting and marketing Texas nationally and abroad • Governor's Office of Economic Development and Tourism: The agency that manages economic development programs and incentives

Source: Analysis completed by PSC.

Out of ten states surveyed, four states and Michigan partner with state-level, public-private organizations to implement statewide economic development policies. Some analysts believe that these public-private organizations are able to offer greater flexibility in service delivery and more effectively leverage private funding (McKinsey & Company 2018).

Michigan's shift to a public-private model has numerous benefits and has been seen as a model in the economic development community, providing the state with a competitive advantage.

The MEDC has been cited as a model for its economic development organizational structure and the National Governors Association (NGA) has cited the EDO as an example of a best practice when redesigning state economic development agencies. In this report, the NGA's Center for Best Practices stated that according to business leaders, the traditional public-agency-led economic development model often resulted in a cumbersome agency design that limits flexibility and responsiveness and contributed to an inability to connect businesses to supports and services (NGA n.d.). Michigan is singled out in this report as an innovative state that started a trend in the 1990s to shift from the traditional department of commerce model to a more dynamic organization that could better coordinate service delivery across state government and reduce the bureaucratic experience for businesses and communities looking to access programs and supports.

Michigan is also recognized by the customers it serves—businesses and communities. The MEDC tracks performance through surveys, and its April 2019 report shows 83 percent customer satisfaction among businesses, 82 percent among communities, and 80 percent among local partners (MEDC April 2019).

It is notable that two of Michigan's closest competitors, Indiana and Ohio, have relatively recently launched public-private organizations to lead their economic development efforts. This trend suggests that the MEDC's existing organizational structure may be a competitive advantage, at least regarding its closest regional competitors.

While this unique approach, even when compared to other public-private entities, has provided Michigan with a competitive advantage over its rivals for years, this institution-level structural advantage does not guarantee better performance. Coordination between public and private entities can be challenging, especially if resources and strategies are not aligned.

Several benchmark states, including Ohio and North Carolina, have incorporated organizational innovations related to customer service, regional coordination, and independent funding.

Customer Service

In Ohio, the private nonprofit JobsOhio, in partnership with the publicly funded DSA has developed innovative strategies to deliver an effective customer-service-oriented approach. JobsOhio manages customer service and technical assistance, while state staff within the DSA lead program management, compliance, and reporting functions. The industry, business development, and international teams of JobsOhio are front facing, while the project management and finance teams at the DSA provide operational support (JobsOhio n.d.c).

JobsOhio takes a similar approach to working with the public DSA on key incentives, with JobsOhio's front-facing teams working with businesses and partnering with the DSA on program management and compliance. JobsOhio's industry sector teams focus on priority industries for Ohio, and each team is led by a former executive from that priority industry. The EDO considers this approach a differentiator nationwide, citing their ability to engage industries "C-suite to C-suite," meaning from one senior executive to another, as critical to their success in supporting businesses in Ohio. This approach is unique among the EDOs surveyed in that it covers multiple industries. Michigan has taken this approach to the auto industry, with its automotive office and PlanetM.

According to an independent evaluation conducted by McKinsey & Company, JobsOhio has a positive reported customer satisfaction rate, with approximately 80 percent of customers saying they were "satisfied" or "very satisfied" in their dealing with the EDO (McKinsey & Company 2018). In surveys conducted for this third-party evaluation, staff responsiveness was consistently noted as one of the top reasons for a positive experience in working with state EDOs, which the evaluator cited as a competitive advantage for JobsOhio. Customer feedback also indicated that the EDO's strengths include a "clear point of contact, close communication, and facilitation of connections, as well as deal expertise and a sense of urgency" (McKinsey & Company 2018). These scores compare favorably with Michigan's own internal customer satisfaction scores of between 80 and 83 percent (MEDC April 2019).

North Carolina uses a slightly different hybrid privatization approach to economic development, with a nonprofit, the Economic Development Partnership of North Carolina, working on a contract basis with the North Carolina Department of Commerce. The EDPNC focuses on business development, marketing, and tourism promotion, while the NCDC manages and administers the key incentive programs used to support new and expanding businesses in the state. While the state lacks an independent evaluation to demonstrate its effectiveness, these functions were intentionally divided to create a seamless customer experience without sacrificing critical public accountability.

Regional Coordination

JobsOhio also provides a valuable case study in coordinating local, regional, and state economic development efforts. The EDO organizes the state into six geographic regions anchored by major metropolitan areas and then provides $10 million in financial support to each region for operations and investment while also coordinating the regional EDOs through regular meetings. JobsOhio provides a wide range of economic development expertise as well but has established communications channels to ensure that local and regional voices inform the state's priorities and plans. While McKinsey & Company cited this approach as a key part of the EDO's successful customer service performance, their analysis also suggested that there were additional partners that should become part of their coordinated effort.

In South Carolina, the Department of Commerce plays a critical role in establishing and implementing the state's economic development mission both independently and as the lead of the CCED. The department administers its own programs and services, but in its role within the CCED it also coordinates and funds local economic development efforts. This allows the state's primary EDO to both provide companies with a wide range of state-managed tax incentives and credits and connect companies to business and community development grants that, with varying levels of state control, are passed through to regional and county-level EDOs. These locally managed funds not only maximize the flexibility for local leaders to invest in their own priorities, but also provide a valuable incentive for these regional and local EDOs to closely coordinate with the DOC and CCED that decide which projects will receive state grant funds.

Similar to Ohio and South Carolina, Michigan provides regional coordination through the Collaborative Development Council (CDC). Established in 2011, the CDC is comprised of 20 economic development organizations from across the state, each representing different regions, and the Michigan Economic Developers Association. The CDC meets monthly and provides a forum to improve coordination among agencies and improve service delivery (MEDC n.d.b). The MEDC budgeted $1,179,400 in fiscal years 2018–2019 and 2019–2020 to support local EDOs through the CDC (MEDC n.d.b).

Independent Funding

States that leverage public-private partnerships are able to leverage independent sources of funding, and JobsOhio has leveraged an independent funding stream to its advantage. JobsOhio receives its funding exclusively through the profits from the JobsOhio Beverage System liquor enterprise, which is an exclusive 25-year franchise for the sale of liquor in Ohio that JobsOhio purchased from the State. With independent funding sources, JobsOhio can take a long-term approach to investments in economic development projects and does not have to adjust its funding priorities to justify annual appropriations.

In North Carolina, the state's hybrid approach relies heavily on state funds, but is supplemented with federal dollars and substantial investments from private entities. The combination of these funds accounted for 11 percent of the EDPNC's budget in 2017–2018. This unique approach to blending funding boosts the state's overall investment in economic development without relying on taxpayer dollars and increases the range and flexibility of programs and services offered.

5. Economic inclusion is increasingly a priority as states recognize that rising inequality hinders economic growth and community development.

Summary of Findings

- When income inequality rises, economic growth declines for a variety of reasons.
- States are using a number of different approaches to promote economic inclusion, including geographic incentives, procurement targets, and offices dedicated to the support of minority and disadvantaged businesses.
- Michigan has developed unique programs for economic inclusion, but there are initiatives it could borrow from other states.

When income inequality rises, economic growth declines for a variety of reasons.

Economic inclusion stresses the importance of ensuring minority and disadvantaged individuals and businesses have access to economic opportunities, and the lack of economic opportunity for some populations has become an important issue for economic developers. Issues related to cycles of poverty, school outcomes, stagnant wages, and barriers to employment have become important challenges in promoting opportunity for everyone. The issue of economic opportunity is one of increasing concern to economic developers because it hinders economic growth and community development (IEDC 2016a).

EDOs have traditionally focused on growing jobs and capital investment in their communities, and questions related to who in the community benefits from these efforts have been viewed as outside the scope of the EDOs. However, the increasing disparity in economic opportunities and incomes has been harmful to many community residents' quality of life and is increasingly recognized as harmful to overall economic development efforts. When income inequality rises, economic growth declines for a variety of reasons:

- Income inequality undermines education opportunities for disadvantaged individuals, lowering social mobility and impeding the development of the skills employers need from their employees to grow their business.
- Individuals who are not working cannot contribute to a growing economy.
- Poverty and lack of opportunity are associated with social problems, such as poor health, substance abuse, crime, housing instability, and dropping out of high school, among others. (IEDC 2016a)

Communities with high levels of poverty and income disparity struggle to maintain a competitive edge with their fellow communities, and traditional economic development programs are sometimes limited in their ability to advance economic inclusion. Many types of community development funds are geared toward developing downtowns or providing technical assistance to cities. For example, brownfield redevelopment funds are often channeled toward commercial and industrial sites as opposed to redevelopment in poor neighborhoods that have been affected by similar issues.

States are using a number of different approaches to promote economic inclusion, including geographic incentives, procurement targets, and offices dedicated to the support of minority and disadvantaged businesses.

Economic inclusion efforts in the surveyed states generally focus on the following:

- **Geographic incentives:** Extra funding per job for businesses that create jobs in economically distressed counties/communities
- **Dedicated office:** Separate offices that focus on providing support to minority and disadvantaged businesses
- **Small-business support/certification:** Targeted assistance to help minority small businesses accelerate business growth with business services, procurement assistance, mentorship, access to capital, or other programs
- **Program alignment:** Alignment of programs in support of economic inclusion objectives, such as removing urban blight and connecting people on public assistance to employment opportunities
- **Workforce development support:** For job placements, job training, and retention of people with barriers to employment
- **Procurement incentives for state agencies:** Incentivizing and setting goals for public agencies to award contracts to businesses that meet criteria for socially and economically disadvantaged individuals and geography

EXHIBIT 2.5. Economic Inclusion Approaches of the Surveyed States

State	Geographic Incentives	Dedicated Office	Small-business Support/ Certification	Program Alignment	Workforce Development Support	Procurement Incentives for State Agencies
Alabama	Yes—Enterprise Zones	Yes	Yes	No	Yes	No
Georgia	Yes—County tier designations and Enterprise Zones	No	Yes	Yes—OneGeorgia Equity Fund	Yes	No
Illinois	Yes—Enterprise Zones	Yes	Yes	No	Yes	No
Indiana	Yes—Community Revitalization Enhancement District Tax Credit and Enterprise Zones	Yes	Yes	No	Yes	No

State	Geographic Incentives	Dedicated Office	Small-business Support/ Certification	Program Alignment	Workforce Development Support	Procurement Incentives for State Agencies
Michigan	Yes—Renaissance Zones	No	Yes	Yes—Community Ventures and Rising Tide	Yes	No
North Carolina	Yes—County tier designations	No	Yes	No	Yes	No
Ohio	Yes—Enterprise Zones	Yes	Yes	No	Yes	Yes
South Carolina	Yes—County tier designations and Enterprise Zones	No	Yes	No	Yes	No
Tennessee	Yes—County tier designations	Yes	Yes	No	Yes	No
Texas	Yes—Enterprise Zones	No	Yes	No	Yes	No
Wisconsin	Yes—Enterprise Zones	No	Yes	No	Yes	No

Source: Analysis completed by PSC.

Four states incentivize investment through county tier designations. These states—Georgia, North Carolina, South Carolina, and Tennessee—rank counties according to metrics such as unemployment rate and per-capita income, and then state incentive programs reward investment in more distressed counties with tax rebates and increased grants. For example, South Carolina's Job Tax Credit is specially designed to create more equity in economic development statewide. This credit, which eliminates up to 50 percent of a company's corporate income tax liability, incentivizes businesses to invest in counties that are struggling economically by providing larger credits per job in those areas. Similarly, North Carolina's JDIGs provide higher grant amounts for investments in more distressed counties. Eight of the ten surveyed states utilize some form of an Enterprise Zone program, which provide incentives, primarily in the form of tax incentives, to companies that invest in distressed areas of the states. Georgia and South Carolina use both county tier designations and Enterprise Zones.

All of the surveyed states provide support to small businesses, including minority-owned and disadvantaged businesses, but Alabama, Illinois, Ohio, and Tennessee have established Minority Business Enterprise offices and/or programs that focus specifically on underserved communities. In providing services, it is common to give state certification to minority and disadvantaged businesses that help them compete for state contracts.

Ohio is among surveyed states in supporting minority and disadvantaged businesses through state procurement targets. It has two flagship programs for supporting these businesses through state procurement. The Encouraging Diversity, Growth, and Equity program establishes goals for state agencies, boards, and commissions in awarding contracts to businesses that meet criteria for socially and economically disadvantaged individuals and geography. The Minority Business Enterprise program has a 15 percent set-aside goal, which is overseen by the Department of Administrative Services.

Georgia's OneGeorgia Equity Fund is a unique program that aligns economic and community development objectives in areas of greater need. The purpose of the OneGeorgia Equity Fund is to provide a program of financial assistance that includes grants, loans, and any other forms of assistance to finance activities that will assist applicants in promoting the health, welfare, safety, and economic security of Georgia residents through the development and retention of employment opportunities in areas of greater need. The OneGeorgia Equity Fund is designed as a flexible community and economic development tool that provides funding for projects relating to technology; public water and sewer infrastructure; road, rail, and airport improvements; capacity building for industrial/business sites; workforce; and tourism. The OneGeorgia Authority, in partnership with the Georgia Department of Community Affairs, administers the fund, and it is used to fund projects that increase capacity and enhance the competitiveness of rural Georgia. Eligible recipients of grant and loan funds include general-purpose local governments (municipalities and counties), local government authorities, and joint or multicounty development authorities in rural counties suffering from high poverty rates. Local governments may distribute the funds to for-profit or nonprofit entities.

Michigan has experimented with unique programs for economic inclusion, but there are initiatives it could borrow from other states.

Michigan's efforts to align services and incentives in distressed communities were unique among benchmark states. The state has showed a willingness to experiment through several programs, such as Community Ventures and Rising Tide, in the pursuit of innovative strategies to address this challenging issue. Community Ventures, launched in 2012, incentivized the hiring of structurally unemployed residents of the state's most economically distressed urban communities. The program partnered with local economic development organizations to facilitate employment for structurally unemployed residents of the state's most economically distressed urban communities. The program provided incentive funding and job retention services to ensure the long-term employment success of participants. Similarly, the Rising Tide program, launched in 2016, provides economically challenged communities with technical assistance and resources to design and build solid planning, zoning, and economic development foundations to attract new businesses and help existing employers grow. The future for these programs, which are led by the state's Department of Talent and Economic Development, is unclear, but Michigan has an opportunity to continue experimenting with similar strategies to align and streamline the deployment of resources designed to improve economic inclusion.

While Michigan stands out for being open to developing its own programs in this space, the state has not pursued programs that others have. More specifically, Michigan has not established a public office dedicated to economic inclusion, and it has not set state procurement targets for the use of minority and disadvantaged businesses.

6. Community development is ripe for innovation.

Summary of Findings

- Business development remains the focus for most EDOs, even in those that manage community development.
- Overall, community development has not benefited from the same level of innovation applied to more traditional economic development incentives, programs, and services.
- Some states, including Michigan, are finding new ways to use community development funds.

Business development remains the focus for most EDOs, even in those that manage community development.

Community development provides state policymakers with a valuable opportunity to support local efforts to improve quality of life. The U.S. Department of Housing and Urban Development describes community development activities as those that build “stronger and more resilient communities” through investments in “infrastructure, economic development projects, installation of public facilities, community centers, housing rehabilitation, public services, clearance and acquisition, microenterprise assistance, code enforcement, homeowner assistance, and many other identified needs” (HUD n.d.). States recognize the role quality of life plays in attracting talent, and the important role infrastructure can play in business location decisions, and all of the states surveyed reference these factors in promoting their state. Similarly, good jobs are critical for individual families and thus to thriving communities, which is why many states have recognized the value of thinking about community development as a vital component of a strong overall economic development strategy and vice versa. Some states dedicate entire agencies to community development, while others house their community and economic development staff under the same roof in an attempt to streamline services and multiply their impact.

Among the states surveyed, the IEDC and the MEDC are unique in their consolidating of business and community development efforts under a single public-private partnership organization. Four additional states—South Carolina, Illinois, Wisconsin, and Tennessee—combine their business and community development efforts under a single public agency. The other five—Alabama, Georgia, Ohio, North Carolina, and Texas—separate program areas into different state agencies.

Every state, regardless of its organizational structure, relies heavily on federal funds to support community development, most notably, the Community Development Block Grant program provided by HUD. This program provides states with funding to disperse to smaller city and county governments that do not receive funds directly from HUD. These dollars can be used by local governments to develop and preserve affordable housing, provide targeted services to vulnerable families, and create and retain jobs. While every state receives these funds, they are also empowered to shape their own priorities and distribute grants to different types of projects within the scope outlined by the federal government.

The dollars available to states are substantial and often make up the majority of all community development funding.

EXHIBIT 2.6. FY 2019 Economic Development Funding and Staffing by State

State	Community Development Collocated with Economic Development	Business Investment	Community Vitality	Difference	Business Investment	Community Vitality	Difference
Alabama	No	$63,267,118	$64,136,849	-$869,731	46	11	35
Georgia	No	$14,507,153	$83,497,223	-$68,990,070	34	12	22
Illinois	Yes	$117,757,400	$165,392,700	-$47,635,300	60	39	21
Indiana	No	$63,937,982	$30,596,640	$33,341,342	38	15	23
Michigan	Yes	$88,461,425	$86,358,284	$2,103,141	96	53	43
North Carolina	Yes	$113,391,510	$60,640,348	$52,751,162	90	34	56
Ohio	No	$427,018,167	$111,210,604	$315,807,563	181	43	138
South Carolina	Yes	$89,882,065	$27,143,051	$62,739,014	42	37	5
Tennessee	Yes	$137,604,200	$61,119,400	$76,484,800	37	16	21
Texas	No	$16,921,111	$73,579,712	-$56,658,601	68	37	31
Wisconsin	Yes	$24,038,200	$11,000,000	$13,038,200	52	N/A	N/A

Source: Analysis completed by PSC.

While the organizational structures differ across the states surveyed for this analysis, most states budget more resources and dedicate more staff to economic development, even when these program areas are collocated. For example, in Tennessee, TNECD, which collocates business investment and community vitality strategies, receives nearly twice the allocation for the former when compared to the latter, even after excluding the millions of dollars spent on tax incentives. In Ohio, the disparity is even greater. While every state disburses their federal CDBG funds to community developers at the local level, few are dedicating significant state resources to supplement these efforts. The MEDC has achieved relative parity and can therefore support these efforts with a more balanced approach. The same disparity holds for staffing. All of the states surveyed allocate more staff to business investment activities than they do to community development, with Ohio standing out for having more than three times the staff focused on business development than community development, when JobsOhio is included.

Overall, community development has not benefited from the same level of innovation applied to more traditional economic development incentives, programs, and services.

The federal influence over community development is significant, as demonstrated by the share of funding provided by HUD through the CDBG. The federal government prioritizes this type of spending and is trying to balance the tension between providing states with the flexibility to fund their individual priorities and the need to ensure the appropriate use of billions of federal tax dollars. It is for this reason that the list of programs and services that these resources can support is so long and varied. However, while there is flexibility in spending of the CDBG and other community development dollars, the level of creativity driving innovation in economic development has been less prevalent in community development. States must produce plans describing how they will spend federal funds, but many simply use the same programs year after year without making significant changes. States that provide additional funds to supplement federal community development dollars can strategically invest in successful models without the requirements that come with HUD grants.

Given this trend and the level of investment from the federal government, community development appears to be an underutilized resource that is ripe for innovation. Leading states are experimenting with different strategies to more effectively deploy community development resources to promote economic growth and prosperity.

Some states, including Michigan, are finding new ways to use community development funds.

Some states have developed a competitive advantage in community development through the creative application of state and federal dollars. These strategies go beyond the typical downtown redevelopment programs that are often funded with these resources. These traditional façade improvement and neighborhood revitalization programs can add value, but innovative states are looking for opportunities to strengthen community infrastructure that can achieve strategic economic development priorities. While Michigan should be considered a leader in this area for dedicating staff and technical assistance, it can benefit from understanding the experiences of Indiana in developing a state-funded program and North Carolina for its approach to interagency coordination.

In interviews conducted for this analysis, the MEDC received praise from multiple stakeholders on its community development and placemaking efforts. One area where Michigan stands out is through its community development field staff—the Community Assistance Team. As the main point of contact for communities and developers interested in accessing MEDC community development programs and services, the CATeam connects stakeholders to technical assistance programs and incentive programs managed by the MEDC. While other states have regional community development teams, the MEDC CATeam is unique in that it is collocated with MEDC business development teams, which are comprised of regional MEDC staff focused on retaining and growing existing Michigan businesses and attracting new businesses to the state through programs.

As another example, Michigan's Redevelopment Ready Communities program, which launched statewide in 2013, was singled out by Michigan stakeholders for its innovative approach to aligning community and economic development missions. This program is designed to "empower communities to shape their future by establishing a solid foundation that retains and attracts business investment and talent" (MEDC

2019e). This program offers business, community, and talent development technical assistance to communities at no cost if they are able to demonstrate their commitment to best practices in transparency, predictability, and efficiency. During the stakeholder interviews performed for this research, one participant stated said that the RRC program provided significant value to communities, but also noted that making the program a requirement for some incentives was a turnoff for some community leaders. Another stakeholder who valued the RRC program thought it helped communities to really consider potential issues a person would face if they wanted to start a business in their town and caused community leaders to review whether their ordinances, permitting process, zoning, etc. were up to date to help ensure their community was conducive to business development. This program interfaces with Michigan's Rising Tide program to ensure economically distressed rural communities have the support they need to leverage state and federal resources and generate community development action plans that promote job creation and business growth.

Indiana's Regional Cities Initiative is a significant placemaking effort aimed at making Indiana communities more competitive at attracting a skilled workforce and was designed to encourage collaboration between local communities and partners. While this initiative appears to have some similarities with the MEDC's RRC effort, the scale of this program and its funding source are unique. Indiana dedicated the proceeds from a state tax amnesty ($126 million) to provide substantial grants in support of this initiative and the IEDC used those funds to incent regions to develop strategic plans. The original proposal called for two regions to be awarded $42 million each, but when the amnesty program exceeded revenue expectations, the state added a third $42 million award. These plans describe 100 placemaking projects which will be funded with the $126 million in state funds and an estimated $2 billion in local and private investment. Most of these projects are expected to be completed by 2020 and the Governor has continued to support ongoing investment in this effort (Indiana Regional Cities Initiative 2017).

North Carolina, like all surveyed states, utilizes federal CDBG funds to assist local government public infrastructure projects, but its focus on streamlining investments in transportation with other economic development activities makes its approach unique and promising. North Carolina's Departments of Commerce and Transportation coordinate efforts to implement the Joint Economic Development Program, which supports transportation improvements and infrastructure that expedite industrial/commercial growth and create new jobs. For rural communities, North Carolina also provides infrastructure grants to lower-income counties and grants for public infrastructure projects that create jobs in rural communities.

7. Policymakers are increasingly demanding data on the performance and value of incentives.

Summary of Findings

- Incentives of all shapes and sizes are the primary tool that states use to try to spur economic growth, but the lack of consistent, high-quality impact evaluations makes it difficult to assess their impact.
- While states have been slow to implement evaluation programs, evaluations have proven helpful in improving policy.
- Michigan enacted its own law requiring the evaluation of tax incentives in 2018, and its implementation creates an opportunity to inform decision making.

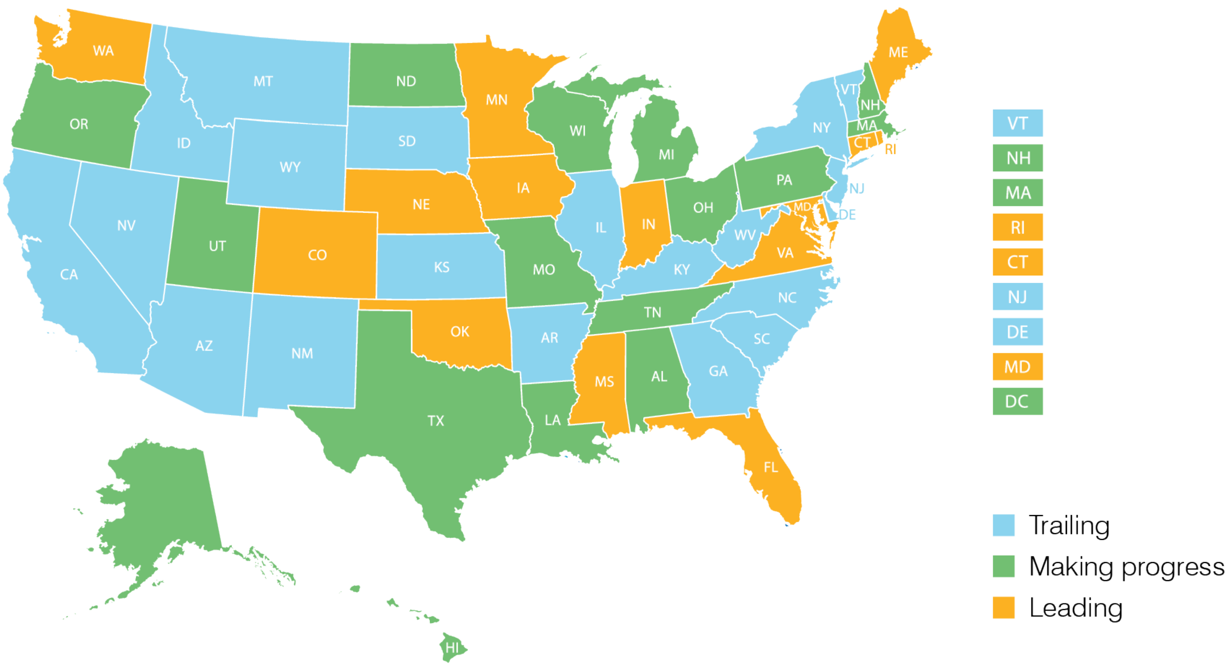
Incentives of all shapes and sizes are the primary tool that states use to try to spur economic growth, but the lack of consistent, high-quality impact evaluations makes it difficult to assess their impact.

The lack of consistent, high-quality impact evaluations makes accurately unpacking the impact and return on investment of specific strategies within economic development, let alone entire EDOs, challenging. Incentives of all shapes and sizes are the primary tool that states use to try to spur economic growth through job creation and capital investments. Given their prevalence and cost, policymakers across the country increasingly are demanding data on their performance and value.

The Pew Charitable Trusts, after conducting extensive research on the use and evaluation of tax incentives, recommends several best practices for all states to consider when attempting to better understand the size and impact of these tools. Pew recommends that states fund and establish a process to regularly evaluate their entire portfolio of tax incentives. Their research also highlights the importance of ensuring that evaluations are high-quality and consider "the extent to which incentives successfully changed business behavior" (Pew Charitable Trusts 2017g). Finally, Pew highlights the importance of policymakers using the results of these evaluations to inform critical budget and policy debates.

With this criterion in mind, Pew rated all 50 states as either "trailing," "making progress," or "leading" when it comes to evaluating incentive programs.

EXHIBIT 2.7. State Tax Incentive Evaluation Ratings



Source: Pew Charitable Trusts 2017g

While states have been slow to implement evaluation programs, evaluations have proven helpful in improving policy.

Of the ten states surveyed, Indiana is the only surveyed state identified by Pew as a leading state for evaluation, and they are using incentives to change and improve policy. In 2014, Indiana enacted legislation requiring evaluation of tax incentives on a five-year cycle and quickly began using the results to make adjustments to the state's tax incentive strategy by closing two incentives that were failing to deliver a strong return on investment (State of Indiana 2014).

According to Pew, Indiana's nonpartisan Legislative Services Agency has been able to use a mixture of common sense and quantitative analysis to estimate how much taxpayer activity can be attributed to incentives, which is critical step for measuring their impact. Indiana policymakers have continued to work to improve the evaluation process so that policymakers will continue to benefit from its findings.

Of the ten states surveyed, three—North Carolina, South Carolina, and Georgia—are considered trailing and have no system for regularly evaluating their tax incentives. These three states are falling behind their competitors and will not be able to rely on analysis and recommendations from regular and rigorous evaluations to make quality improvements, eliminate ineffective strategies, and invest in successful incentive programs. This is particularly concerning in states like Georgia and South Carolina that rely heavily on tax incentives as their core economic development tools.

Michigan enacted its own law requiring the evaluation of tax incentives in 2018, and its implementation creates an opportunity to inform decision making.

Michigan recently joined the ranks of states that are making progress after the passage of House bill (H.B.) 6052 in 2018 that establishes a process for regularly and rigorously evaluating tax incentives in 2018. This law is similar to those passed in several other states and not only sets strict requirements for the regularity and quality of tax incentive evaluations, but covers all abatements, tax credits, exemptions, grants, loans, and loan guarantees related to economic development activity as well (State of Michigan 2018). This will provide the MEDC and state policymakers with valuable information about active incentive programs that can be used to inform strategy going forward.

Part Three: Synthesis

This section of the report synthesizes the detail provided in parts one and two by:

- Condensing parts one and two into a traditional SWOT analysis about the MEDC from the program perspective
- Presenting a SWOT analysis of the MEDC from the perspective of knowledgeable stakeholders
- Synthesizing the benchmark state information into a hypothetical ideal EDO for discussion purposes

MEDC Strengths, Weaknesses, Opportunities, and Threats: Benchmark Comparison

Overview

This section summarizes the strengths, weaknesses, opportunities, and threats for the MEDC based on the ten state comparative analyses in parts one and two of this document (Cross-state Comparative Analysis and Major Findings, respectively) as well as appendices A and B (State Comparison Analysis—Summary Tables and State Studies, respectively).

EXHIBIT 3.1. MEDC SWOT Analysis

Strengths	**Weaknesses**
• Support for small business and entrepreneurship • Increased focus on grant-based incentives • Industry expertise on mobility through the MEDC's automotive office and PlanetM • Public-private organizational structure • Community development focus	• Historic costs of tax incentives • Lack of a proven talent development program focused on business attraction • Level of funding for the MEDC compared to benchmark states
Opportunities	**Threats**
• Incentives related to infrastructure and talent • Regional funding and coordination improvements • Diversification of industry expertise across industries beyond mobility/automotive • Customer service • Additional funding sources • Economic inclusion • Using program evaluation to inform decision making	• Economic disparity • Fiscal and political reality

Source: Analysis completed by PSC.

Strengths

Support for Small Business and Entrepreneurship

Michigan's range of programs to support entrepreneurs, provide capital access, and encourage research and development matches or exceeds that of other states. Across each of these three major service areas, MEDC programs are comparable to those provided in other states. The Michigan Small Business Development Center and its 11 regional offices and 20 satellite offices provide entrepreneurs with technical assistance that surpasses many other states, while programs such as the First Capital Fund and Michigan Pre-Seed Fund 2.0 support technology entrepreneurs with capital access. In addition, the state's 20 SmartZones support entrepreneurs, research and development, and commercialization of technologies developed by Michigan universities.

Increased Focus on Grant-based Incentives

Michigan has sought to mitigate its historic tax incentive challenges associated with the MEGA program by shifting its focus to the MBDP grant program as its signature incentive. This is a best practice identified across the surveyed states.

Industry Expertise on Mobility through the MEDC's Automotive Office and PlanetM

While many of the states surveyed have an automotive focus, the MEDC stands out for creating an automotive office with staff dedicated to this industry. The MEDC's PlanetM brand provides further focus and differentiation compared to other states.

Public-private Organizational Structure

The MEDC is cited as a model for its economic development organizational structure, and it has influenced other states, including its regional competitors Indiana and Ohio, into shifting to this approach.

Community Development Focus

The MEDC is one of five states that group together community development and economic development in the same organization. Michigan's use of community development field staff through the Community Assistance Team and Redevelopment Ready Communities program are at least on par with leading states. Further, Michigan's ratio of community development staff to business development staff—as well as relative funding between those two programming areas—is among the group of leading benchmark states.

Weaknesses

Historic Costs of Tax Incentives

Michigan continues to face costs due to its earlier use of the MEGA tax credit as its signature tax incentive. With an estimated liability due to MEGA tax credits of $7.3 billion through 2030, Michigan remains burdened by these prior incentives and it continues to have a higher ratio of tax credits to budget than the majority of the other EDOs surveyed.

Lack of a Proven Talent Development Program Focused on Business Attraction

Other benchmark states such as South Carolina and Georgia have developed job training programs focused on business attraction, with a strong emphasis on seamless customer service. While Michigan has two programs to support expanding businesses in Michigan, STTF and MNJTP, both are primarily targeted to supporting existing Michigan companies. Michigan's recently launched Jobs Ready Michigan could provide the state with a comparable tool for providing job training in support of business attraction, but it remains to be seen if and how it measures up to similar programs.

Level of Funding for the MEDC Compared to Benchmark States

The MEDC lags behind benchmark states both in overall funding as a portion of the state's economic output as well as total spending per MEDC staff member. Michigan spends squarely in the middle of the benchmark states at 0.05 percent of GSP, but leading states spend nearly twice that amount (0.09 percent)—the equivalent of increasing the MEDC's funding by $191 million per year. Similarly, while leading benchmark states effectively spend $1.2 million per EDO staffer, Michigan is below average at $928,000 per staffer. It is important to note that this is not because the MEDC is less efficient than its peers; the MEDC's headcount per million state residents is on par with leading benchmark states. Funding, not relative level of staffing, is where the disparity lies.

Opportunities

Incentives Related to Infrastructure and Talent

While MBDP, the state's flagship incentive program, is flexible, there is an opportunity to expand or supplement its focus to include support for infrastructure development and talent development, two areas of importance for employers as well as local communities.

Regional Funding and Coordination Improvements

In addition to executing a regional approach to business development through its regional business development teams, Prosperity Zones, and SmartZones, the state also provides coordination and funds to regional partners through the MEDC's Collaborative Development Council. While this effort, which is designed to align Michigan service providers across ten regions in the state, signals a commitment to community and regional collaboration, other surveyed states have made significant investments in a wider range of regional programs, projects, and partnerships that allow for resources to more seamlessly support unique community and regional priorities that are coordinated in a way that will advance state economic development objectives.

Diversification of Industry Expertise Across Industries Beyond Mobility/Automotive

While Michigan has built its expertise around the mobility/automotive industry, JobsOhio has made a priority of hiring executives from priority industries across the board, an approach that they consider important to their ability to work with companies.

Customer Service

According to the MEDC scorecard, the MEDC has high customer satisfaction ratings from both business partners (82 percent) and community partners (83 percent). There may be an opportunity to build on this strength by looking at how states have found success by separating external-facing functions from programmatic functions and providing seamless experience for partners. This could apply to the use of job training programs in business attraction as well, where the MEDC must partner with other departments and agencies.

Additional Funding Sources

As a public-private partnership, MEDC can utilize funding sources outside the State of Michigan. JobsOhio, EDPNC, and the TxEDC all receive funding from other sources outside government, from the sale of liquor (Ohio) to corporate donations (EDPNC and TxEDC).

Economic Inclusion

Michigan stands out compared to benchmark states for developing programs such as Community Ventures and Rising Tide that target economic inclusion, but there is room for improvement. More specifically, Michigan has not established a public office dedicated to economic inclusion, and it has not set state procurement targets for the use of minority and disadvantaged businesses—both of which are features of inclusion efforts in leading benchmark states.

Using Program Evaluation to Inform Decision Making

Michigan passed H.B. 6052 in 2018, which establishes a process for regularly and rigorously evaluating tax incentives. Other states, namely Indiana, have found success incorporating the lessons learned from evaluations into their decision making around program design, and Michigan could as well.

Threats

Economic Disparity

While economic inclusion stands out as an opportunity, increased economic disparity represents a threat to the MEDC.

As industries continue to transform and the income distribution continues to widen, there are strategies the MEDC can pursue to try to counter this trend and attract well-paying jobs. If companies seek to make large investments in the state to create a large number of low-paying jobs, the MEDC may be correct to warily evaluate the opportunity. It is unclear if such jobs would represent important employment opportunities to individuals who otherwise might not be able to enter the labor force and whether using state resources to attract low-paying jobs represents a poor use of taxpayer funds. But if those jobs were located in historically distressed employment areas of Michigan, the cost/benefit equation could change. Calculations about what defines a “good” job will require both economic and political analysis, and the MEDC—along with other state EDOs—will face significant challenges when presented with this issue.

Fiscal and Political Reality

Across the benchmark states, all EDOs are likely to face constraints from fiscal sources (both macroeconomic as well as state specific) and evolving political sentiment. However, when comparing the relative funding of benchmark state EDOs—whether by a state’s overall economic activity or per one million state residents—several of Michigan’s competitor states are facing much stronger headwinds than the MEDC. For example:

- Tennessee's nominal EDO expenditures are nearly equal to Michigan's EDO expenditures—even though Michigan's total economic output is roughly one-third larger than Tennessee's. When considering that rate of spending along with Tennessee's massive legacy burden from tax incentives, it will be difficult for Tennessee to keep up with Michigan's sustained programmatic and incentive expenditures.
- Within the Midwest, general public debt burdens (Illinois) and mega-deal fatigue (Wisconsin) will likely constrain both of those states from keeping pace with Michigan.

Political repercussions from massive tax incentives in both Tennessee and Wisconsin—as well as the withdraw from New York for Amazon HQ2—will serve as potent reminders to legislators, governors, and EDO officials alike that mega deals have both massive positive and negative effects.

MEDC Strengths, Weaknesses, Opportunities, and Threats: Stakeholder Interviews

Overview

This section contains an assessment of the strengths, weaknesses, opportunities, and threats for the MEDC based on interviews with stakeholders from across Michigan. Stakeholders were assured that their comments would be confidential to ensure they were comfortable providing candid responses. Their opinions may not always be completely accurate, but they can provide valuable insights on existing perceptions.

EXHIBIT 3.2. MEDC Stakeholder SWOT Analysis

Strengths	Weaknesses
• Overall support for the MEDC and its mission • Community partnerships • Quality staff • Community development and placemaking • One-stop shop • Tourism and placemaking	• Incentive toolset • Small communities and small investments • Bureaucracy • Staffing issues • Lack of tools supporting large investment/low job creation projects • Lack of diversity • Benchmarking
Opportunities	**Threats**
• Rural policies • Make it easier to do business in Michigan • Private funding • Small-business services • Economic inclusion • Agency metrics	• Opposition to the agency and its mission • Targeting the right development opportunities • Placemaking challenges • Technological change

Source: Analysis completed by PSC.

Strengths

Overall Support for the MEDC and Its Mission

The MEDC has strong support from stakeholders in economic and community development. Although many stakeholders were quick to share criticisms, they also value the organization and recognize its importance to the state. Several stakeholders noted the agency's longevity when discussing the MEDC's strengths and the fact that the agency had managed to separate economic development from day-to-day politics. As one noted:

> "The MEDC is a proven organization that has survived three governors . . . it has depoliticized economic development to some degree, and its CEOs have not been political types."

While another noted:

> "Michigan unequivocally needs the MEDC."

Although there is some skepticism of economic development and EDOs among policymakers, the MEDC and its mission are strongly supported by the economic development community and its community partners. This sets it apart from some states, such as Wisconsin, where the state economic development organization has faced criticism from the public and the incoming governor due to the Foxconn deal.

Community Partnerships

Several stakeholders noted strong relationships with local community partners as a key strength, although others pointed to challenges in the relationship between the MEDC and local partners when discussing weaknesses. One stakeholder who valued the relationships with local partners noted:

> "The best thing about the MEDC is that they are very genuine with local partners and partnerships. They attend the staff meetings of local development groups, they work with local partners on all projects, they are deeply engaged in entrepreneurial efforts, they often back local efforts with significant resources, and they help local partners do their job better."

And another noted:

> "Even though they are Lansing based, they have gone out of their way to touch all parts of the state and to be sure they have staff that are supportive and are aware of what is going on."

Finally, one local stakeholder noted that they had a superb relationship with their MEDC partner and that they believed the work the MEDC does coordinating Michigan's ten prosperity regions is outstanding.[3]

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[3] The Regional Prosperity Initiative was established in 2013 to help accelerate the state's economy and improve the quality of life for Michiganders by more effectively leveraging resources at a regional level. The program establishes ten prosperity regions across the state to encourage collaboration and cooperation by local, regional, and state entities in planning and economic development.

Quality Staff

A handful of stakeholders noted the quality of the staff at the MEDC as a key strength. One stakeholder noted that people are the most important asset of the MEDC and that MEDC staff often do not get the recognition they deserve because they are state workers. Another cited excellent EDO leadership staff as a key strength. More than one stakeholder commented on the high-quality of field staff as well, noting that many had years of experience and could bring significant economic development expertise to a community. Staff were also noted for being well connected throughout the state and on top of economic development opportunities and events throughout Michigan.

The positive view of staff was not universally held by stakeholders. The concerns of stakeholders with less positive views will be addressed under weaknesses.

Community Development and Placemaking

Community development and placemaking are seen as strengths by several stakeholders. The expanded CATeam was cited for its effectiveness. One stakeholder noted that the RRC program was of significant value to some communities; however, this same stakeholder noted that making the program a requirement for some incentives was a turnoff for some community leaders. Another stakeholder who valued the RRC program thought it helped communities to really consider potential issues a person would face if they wanted to start a business in their town, and it caused community leaders to review whether their ordinances, permitting process, zoning, etc. were up to date to help ensure their community was conducive to business development.

One-stop Shop

Stakeholders liked that the MEDC can be a one-stop shop for its customers. They noted that the MEDC has done a good job of bundling the programs that are needed by businesses and communities in one place. Others noted the strong resources of the agency and the variety of tools the agency can use to attract development.

Tourism and Placemaking

Finally, several stakeholders noted the MEDC's success in marketing. Comments included success in promoting tourism, building the state's brand, and building the MEDC's brand. One interviewee who felt that creating and promoting the state was an area where the MEDC excelled, stated that:

> "They (the MEDC) are working with what is perceived to be a strong brand, which is Michigan and its diverse economy, and they have helped to develop that brand. Their (the MEDC's) tourism promotion and promoting Michigan as a brand are among their biggest strengths."

With regard to placemaking, another stakeholder noted that:

> "Over the last couple of years, they (the MEDC) have excelled in creating and financially supporting placemaking programs."

Weaknesses

Interviewed stakeholders were asked what they believed were the weaknesses of the MEDC. Stakeholder comments are simply their opinions and, in some cases, may not be accurate. However, regardless of whether these perceptions are accurate, they do exist. In addition, opinions regarding weaknesses were often not uniform.

Several commenters noted economic weaknesses with Michigan in general, as opposed to just with the MEDC. These included concerns about the state's level of talent, shortages of affordable housing, etc. The overall competitiveness of Michigan as a state is outside the scope of this work and these comments were not included in this report.

Incentive Toolset

Several commenters thought that the MEDC is lacking some key tools needed for economic development. One commenter noted that the Brownfield Tax Credit was the most important for economic development and wanted to see it expanded. One stakeholder noted that other states do "Super TIFs," which are Brownfield Tax Increment Financing plans in which other taxes, such as sales and income taxes, are captured in addition to property taxes. The additional tax capture allows the TIFs to be paid off in seven years instead of 30. The lack of historic preservation credits was cited as an important shortcoming as well.

Other comments included:

> "One problem Michigan has in competing with other states is that most other states have very strong local control, and local governments have revenue sources such as sales and income taxes. These communities can use local dollars to enhance their economic development efforts. Michigan has very few similar options for cities and this is not a good thing for the state's future."

> "Michigan and the MEDC lack flexibility in paying for land and buildings. Other states routinely give land and buildings away and have massive labor training programs onsite and ready to go. For example, in South Carolina, when they land a big plant, the state will rent or buy a nearby building to pay for training of the workforce in a location next to the project site to have the labor force ready to go on day one when the plant opens."

One commenter thought the agency should focus more on targeting specific industries, noting that it is not enough to just have business-attraction incentives. The agency needs a strategy to attract businesses that will grow or a strategy to accelerate the growth of sectors that will drive overall economic growth in the state.

A couple of commenters noted that it was often easier to access incentives in other states, with one noting:

> "A lot of [states] just give cash. In some places, accessing an incentive is just a check box on a tax return."

Another raised concerns that driving a hard bargain on incentives could make out-of-state developers less likely to do business in Michigan again. This person associated aggressively bargaining down the price of incentives as bad customer service. However, it is not clear whether making it challenging to access incentives or negotiating for the best price is a weakness. There is a continuum among states with respect to how easy it is to access investment incentives. Making it very easy to access incentives will be positively received by developers but may solicit a negative response from taxpayers and policy leaders, and making it very difficult to access incentives helps protect taxpayer resources but also may result in the state foregoing potentially beneficial economic development opportunities. Finding the right place on this spectrum is one of the more challenging aspects of economic development.

One developer thought that the incentives and focus of the MEDC were too much on large, flashy projects. They felt the biggest share of resources was going to large real estate projects or mobility and that there are a lot of more every-day economic development activities that have high potential from a job creation standpoint that are receiving less focus.

Small Communities and Small Investments

Several commenters noted their belief that the MEDC was better situated to support large projects in urban areas. They felt the organization is oriented toward supporting large corporations and the MEDC's various incentives and tools were weighted toward large job creators. As one person commented, supporting smaller communities requires slower and more patient types of activities.

Other comments included:

> "There is a lot of frustration in Northern Michigan that many of the MEDC's programs are catered to urban communities. One size does not fit all and many rural communities struggle to fit into the MEDC's incentive parameters."

> "It seems like the closer you are to Lansing physically, the more you can be in the MEDC offices and be clubby and meet with staff, and this increases your chances of working with them."

Bureaucracy

Several commenters noted that the MEDC struggles with being too bureaucratic. They commented on bureaucracy around incentives, stating:

> "Sometimes the process for approving and moving forward on incentives is clunky…and the process for bringing forward new programs and incentives can be clunky."

> "It takes 139 steps to get a Business Development Program grant approved."

> "The review and approval process of the Community Revitalization Program is absolutely terrible."

Some commenters noted that the bureaucracy within the agency keeps it from being nimble in responding to opportunities:

> "The business units are not cross functional, and they could be way more effective if they were cross functional across units. For example, when working on an inquiry for a project and it doesn't fit one [unit of MEDC's] toolbox, like community development, it goes to the business development side, and the community development folks wipe their hands of it. It would be better if [the MEDC] were more holistic on these projects."

> "There is at least the perception that we miss out on some federal programs because we are last to the table."

One commenter thought the MEDC needed to work to update outdated rules.

> "The MEDC can be slow to challenge the process. HUD rules are archaic and were developed in the 1950s and the MEDC is sticking to these rules like the Bible. Some of these rules do not even make sense in today's economy."

Finally, some stakeholders noted that they felt the agency did not do a good job communicating. One noted that the agency is not transparent with programs and eligibility requirements. This person felt that eligibility requirements seemed to change depending on which member of the MEDC they spoke to. Another lamented only hearing about projects when they came up at MSF board meetings.

Staffing Issues

While several stakeholders noted the MEDC's staff as a key asset, several other stakeholders raised concerns. In general, these comments noted that while there are excellent staff at the MEDC, this excellence is not uniform throughout the organization. Commenters suggested improving professional development and executive coaching. Comments included:

> "Training and development of staff is not as robust as it should be…[quality of customer service] depends on who you talk to there. There is not enough consistency."

> "There is a mix of professionals at the MEDC, some who are great professionals and very organized, and others who do not have the same level of responsiveness and professionalism one would like to see at an organization like the MEDC."

> "…their process for onboarding new staff is poor…senior people need executive coaching…outside of the CEO, staff do not seem to know how to deal with foreign folks."

Lack of Tools Supporting Large Investment/Low Job Creation Projects

Several stakeholders noted that they are seeing more opportunities in Michigan with a large potential investment but low potential job creation. This was often discussed in connection with advances in technology. As companies become more automated, projects that would have been large job creators in the past often create significantly fewer jobs. These stakeholders questioned whether the MEDC was going to need to rethink its incentives to better support these types of projects.

Similarly, one person felt that the MEDC should pay more attention to job retention opportunities. In this case, a significant investment would retain jobs instead of creating them. A company with an aging plant might retain jobs in a community for five to eight more years with new investment but might otherwise close. This is particularly important in rural areas, where it would be very difficult to replace the jobs of a manufacturing plant that employs dozens of people. If such a company could be incented to reinvest in a plant, it could extend the life of an important employer.

The trend of projects creating fewer jobs for a given investment presents important questions for the MEDC to consider, such as whether or not these projects fit within the MEDC's overall mission or whether the agency and its tools should stay focused on projects that are large job creators. In addition, it could be important to consider what types of investments are most valuable and how incentives can be modified to be effective for these investments.

Lack of Diversity

Multiple stakeholders noted that the lack of diversity of all sorts is a weakness of the agency. This included racial and ethnic diversity of employees and stakeholders as well as diversity in viewpoint. The lack of diversity was also flagged as a challenge while the agency considers ways to work on economic inclusion efforts. As one person noted:

> "It is really important to have a diverse staff to build trust between the agency and developers and businesses from minority communities. It is important that these developers and business owners see people within the agency that look like them. Does the MEDC have a diversity statement that has been affirmed by the board? Do they have a diversity and inclusion director?"

Benchmarking

Several stakeholders mentioned the importance of benchmarking. The agency needs to track what it is doing and how it compares to the activities of other states. This includes understanding cutting-edge practices being implemented by other states and nations. One commenter thought the MEDC should have four or five key competitors that the agency benchmarks itself against every year. Benchmarking will also help to prevent mission creep. One stakeholder said that it is important to review what the agency does each year and whether it is still relevant. The agency needs to be cognizant of what is happening in Michigan, around the country, and around the world. It needs to continually examine if it is putting its resources in the right place.

Opportunities

Rural Policies

Several stakeholders thought the MEDC could be more effective at growing economic opportunities in rural areas. One stakeholder suggested that the MEDC hire a rural attraction advocate to help ensure the agency always has a focus on rural development. Another noted that a focus on revitalizing downtown areas in rural communities could be helpful. One stakeholder noted that rural areas are often challenged because their economic development staff is part time. The MEDC could help support these communities with services to supplement their limited economic development capacity.

Designing incentive programs so that rural opportunities can better compete would be valued by local partners. Several commented that projects that would be important to their communities would have difficulty competing for incentives with larger projects in urban areas. A project creating 20 jobs in a rural area can be important to the community but would struggle to compete with a program creating 200 jobs in an urban area. Redesigning programs to better suit rural areas may involve considering job creation numbers relative to community population.

Some stakeholders commented that they felt disconnected from Lansing. These included comments around not understanding the Department of Talent and Economic Development/MEDC organizational split, a feeling that those closer to Lansing geographically had an inside track to incentives, and an overall feeling that the agency does not always communicate well with developers in rural areas. At the same time, some noted that the work and outreach being done with the prosperity regions was excellent. An increased emphasis on communicating and engaging with partners in rural communities would be valuable to these partners and would likely improve the overall effectiveness of rural development efforts.

Make It Easier to Do Business in Michigan

In addition to providing incentives, the MEDC can serve a critical role in Michigan by making it easier for companies that want to do business in the state to do so. As one stakeholder put it:

> "There are things [the MEDC] can do to help clear the path for firms. They can identify land, clear sites, do things to make it as easy as possible to invest in Michigan. They can bring coherence and one-stop shopping to anyone who wants to locate or set up shop in Michigan."

This stakeholder stated that while the MEDC serves, to some extent, as a one-stop entry point for firms already, there is an overall lack of coordination between economic development groups in the state. They felt that economic development is more organized in West Michigan and that in Southeast Michigan, there is competition to be strongly recognized in the area of economic development.

Others noted the importance of the customer experience for those looking to invest in Michigan. Being easy to work with and providing a positive customer experience can be challenging, as the state also needs to negotiate economic development incentives. The MEDC needs to determine how best to drive a hard bargain while at the same time maintaining a positive customer experience for developers.

Private Funding

One stakeholder noted that private funding opportunities could be valuable to the MEDC. He noted that several local EDOs in Michigan do this well, noting specifically work done in Grand Rapids, Detroit, and Flint. Georgia Power and Intersect Illinois were cited as good examples from other states. Georgia Power is a utility that also supports economic development through assisting companies with site selection and other means. Intersect Illinois is a nonprofit focused on economic development that is funded primarily through corporate donations.

Small-business Services

One stakeholder noted that many programs were only useful for larger companies and that there were real opportunities with small businesses. Many small firms need technical assistance with business planning, finance, procurement, and other issues, and the MEDC can add value in these areas. The MEDC's work with Economic Gardening and other small-business development efforts also adds value. One stakeholder noted that the SBDC was valuable for technology firms but thought it would be very helpful if it provided services to a wider set of companies. This person also noted that even firms like restaurants and hardware stores can grow, replicate, and create more jobs, noting the success of Domino's Pizza, which grew from a local Michigan business to a global chain.

Economic Inclusion

Stakeholders were nearly unanimous in their opinion that the MEDC should increase focus on economic inclusion. They also noted that while this topic is currently receiving large amounts of attention in the economic development world, it is not yet clear what the most effective tools are for increasing inclusion.

Stakeholders noted that economic development tools are important not just for attracting investment to Michigan, but also for helping direct where this investment occurs. A company may have already decided to invest in Michigan, but incentives, site selection assistance, and other efforts can help steer this investment to disadvantaged communities.

Increasing the diversity of the MEDC's staff and ensuring that the MEDC can effectively communicate in multiple languages would help the agency to reach business partners and developers in communities that may currently be underserved.

Agency Metrics

Some stakeholders saw the development of strong metrics as a potential catalyst for increasing agency performance. This includes metrics at the agency level but also metrics for individual teams that can help manage work.

Threats

Opposition to the Agency and Its Mission

The threat most frequently cited by stakeholders was uncertainty regarding the economic development views of the new governor and legislature. One stakeholder summed up the sentiment of many by stating:

> "The MEDC faces the same threats that it has been facing for the past ten years and this threat is gaining momentum on both the left and the right. There is a general lack of support for economic development, which is often seen as corporate welfare. The miseducation of the public and politicians of how economic development works continues to be a big problem. Skepticism is high. There is no public-relations campaign supporting economic development and the MEDC by promoting economic development as a tool and profession—what it is, how it works, etc."

One stakeholder gave voice to the skepticism of the agency and its mission by stating:

> "Fundamentally, what the MEDC does does not increase the overall economic activity of the state. I'm not saying that economic incentives cannot work; I'm just saying that it is hard to know when incentives will actually make the difference [in investment decisions]."

Negative perceptions of economic development efforts were also noted by economic developers in other states. Several noted that negative press surrounding Wisconsin's Foxconn incentive package and the Amazon HQ2 effort had soured many on economic development initiatives.

Stakeholders were also concerned that skepticism about the MEDC and its mission could hurt the agency on the funding side. One stakeholder noted the significant funding cuts the MEDC took several years ago and was concerned about the agency's ability to retain talented staff in the face of budget uncertainty. Others worried that reduced resources available for incentives would hurt the MEDC's competitiveness.

Targeting the Right Development Opportunities

One stakeholder expressed concerns that Michigan and the MEDC might target the wrong jobs and competitors, stating that it is a mistake for Michigan to try to compete with Mississippi or Alabama, or even rural Mexico, arguing that Michigan should not be trying to attract low-wage jobs. Instead, the state should be focused on attracting higher-paying jobs that can provide a living wage for workers and their families. Creating a development strategy that includes a focus on economic inclusion may help the state to identify the best approach to opportunities such as these.

Placemaking Challenges

A couple of stakeholders felt the quality of Michigan's cities put the state at a competitive disadvantage. One noted:

> "Michigan continues to not have truly great cities, and because of this, the state is facing a lack of in-migration. We have good cities that are getting better, but we don't have a Columbus, Chicago, Indianapolis, etc., and this is really hurting us."

While community development is part of the MEDC's mission, strengthening the state's cities will require actions outside of the agency as well. However, given that in recent years, strong cities have proven to be powerful economic engines, in part because of their ability to attract talent, Michigan may need to focus on strengthening its cities to ensure that the state is able to compete with other states for development opportunities.

Technological Change

Rapid technological change presents a challenge for the MEDC. Uncertainty surrounding which industries and occupations will predominate in the future, especially given transformations resulting from technological change, makes putting together a long-term economic development strategy challenging. When commenting on the potential impact of technological change on manufacturing, one commenter also lamented that Michigan was preoccupied with the manufacturing industry, suggesting that the state should increase its focus on financial services, insurance, medical devices, aerospace, and other high-paying sectors to help diversify away from being too dependent on one industry.

One stakeholder stated that some communities in Michigan are doing well in high-technology fields, noting Detroit, Grand Rapids, Ann Arbor, and Traverse City as examples. However, they were concerned that other communities may be left behind. They also noted that other states, such as Maine and Vermont, offer incentives for people to relocate there and then work remotely. The respondent noted that while this strategy may provide opportunities for some communities, it is highly dependent on the availability of broadband.

Another stakeholder noted that technological change is affecting the profile of investment opportunities, with large investments producing fewer jobs than they did in the past due to automation and other challenges. This change may require the MEDC to rethink the parameters for receiving incentives.

The "Perfect" EDO

The wealth of collected information allows a creative mind to ponder, "If a state wanted to start from the ground up, what would a best-practice EDO look like?" Based on the collected information—that is, grounded on the research presented, as opposed to a free-association brainstorm—the EDO would have the following features.

EDO Structure and Funding

- **An EDO organized in a public-private partnership, funded by a dedicated stream of less-volatile resources.** Michigan's structure is the original public-private model and stands the test of time well. Leading states, such as Ohio, have expanded on the Michigan model and have more reliable and/or less volatile funding sources.
- **Funding for the state's economic development activities would approach 0.1 percent of GSP.** Michigan spends half that rate now; Alabama, Ohio, and South Carolina spend very close to that rate today.

Classic EDO Activities and Programs

- **The EDO's toolkit would include both grants and tax incentives—but it would emphasize grants.** When tax incentives are used, they would be tied to rigorous evaluation, leveraging hard numbers filed with other government agencies (e.g., new-hire reporting, tax returns, etc.) or applications for funding from private lenders (e.g., copies of pro formas and other information submitted to participating banks or investors). Michigan is already heading in this direction, and while other states have clearer evaluation metrics, no state today has a robust set of metrics for a rigorous evaluation.
- **The EDO would emphasize growing the state's existing businesses through a robust entrepreneurial and business-friendly ecosystem.** Out-of-state entities would be interested in locating in the state because they want to do business in the state's business ecosystem (as opposed to being paid to do business in the state's ecosystem). Michigan is already heading in this direction, and the MEDC's existing programs in the entrepreneurial space meet or exceed offerings in other benchmark states.

- **The EDO would prioritize customer service in engaging with both new and existing businesses.** The EDO would provide its customers with a seamless, one-stop-shop experience—from in-state businesses looking to expand to out-of-state companies looking to move. In other words, in- versus out-of-state companies would report identical levels of service and integration.
- **The EDO would align staff and prioritize resources by priority industry sectors and counties/regions.** Michigan is one of only four benchmark states aligning staff and prioritizing resources for staffing in priority industries (along with Georgia, Ohio, and Texas). But leading benchmark states also use priority industries as a factor in resource allocation (North Carolina, Ohio, and South Carolina), directly allocate funding to regions (Ohio, South Carolina), and/or explicitly target less-developed areas of the state more broadly than an enterprise zone concept (Georgia, North Carolina, and Tennessee).

Expanded EDO Activities and Programs

- **The EDO would spend as much on economic inclusion and community development activities as it does on traditional EDO toolkit programs.** Further, it would provide EDO staff to economic inclusion and community development programs in parity with traditional EDO toolkit programs. Michigan is one of the leading states on both funding and staffing today. Only Georgia, Illinois, and Texas provide more community development funding than does the MEDC; only Illinois and South Carolina provide more community development staff (as a ratio compared to business development staff) than the MEDC.
- **The EDO would emphasize talent and infrastructure development alongside traditional EDO toolkit programs/activities**. Depending on how the state defines the terms, talent and infrastructure development could also be a key support to both economic inclusion and community development activities in less prosperous areas of the state.
- **The EDO would be working now with leading researchers and practitioners so that in five to ten years, the EDO is seen as an innovative national leader in both economic inclusion and community development.** While Michigan has shown leadership in these areas across the benchmark states, no state emerged as an undisputed leader based on stated outcomes, so both of these areas are ripe for innovation.

Part Four: Recommendations for the MEDC

The MEDC should continue to incorporate incentive program best practices identified by research and other leading states as it shifts away from traditional tax incentives toward alternative deal-closing tools, such as targeted grant- and performance-based incentives.

To compete regionally, nationally, and even globally, Michigan needs to have robust and well-designed incentive tools that can effectively spur investments in job creation and capital investment. In line with other leading states, Michigan should continue to shift away from tax incentives and toward alternative deal-closing tools, such as targeted grant- and performance-based incentives like the Michigan Business Development Program. This program, originally created in 2011, now serves as the state's signature business-attraction and expansion tool and includes a number of best practices, including clear and transparent eligibility criteria, claw-back provisions, a cap on the amount any one company can receive, and an evaluation of return on investment in realized new jobs and any additional financial support. This type of program is not only well aligned with best practices and leading states, but when compared with traditional tax incentives being offered across the country, it provides greater budgetary certainty, less long-term risk to the state, and more value to companies as they make critical relocation and expansion decisions. When the state does employ tax incentives, like the Good Jobs for Michigan Program, they should be limited, transparent, of shorter duration, and more focused than typically observed in other states.

The MEDC can offer a range of services but could prioritize resources for investment in existing or additional deal-closing strategies already incorporated in multiple benchmark states, such as Tennessee and North Carolina. While these states have seen positive gains from this approach and have aspects that Michigan can model, all of them can be outperformed:

- Tennessee, like Michigan, is working to shift its primary business-attraction investments from incentives to performance-based grants and has developed a unique, coherent, and well-rounded approach—which Michigan can adopt and improve with additional transparency, evaluation, and links to existing successful Michigan programs (such as Pure Michigan Business Connect).
- North Carolina's JDIG program demonstrates a sustainable approach and clear criteria, which Michigan can outperform by more effectively targeting this program toward key industries and small businesses ready for growth and engaging regional partners to generate outcomes that align with MEDC priorities.

In creating additional tools and adopting best practices from benchmark states, Michigan must also properly align them with its broader economic development strategy and think of them as deal closing and not a substitute for other critical tools. This puts the MEDC in line with the growing recognition that incentives can play a role in closing business deals after companies feel confident in the state's general business and talent climate. These efforts must be combined with a commitment to transparency, best practices, and rigorous evaluation to ensure compliance, effectiveness, and opportunities for continuous quality improvement.

Both talent development and infrastructure development strategies are of increasing importance as first-tier economic development tools.

While the MBDP represents a significant shift toward performance-based grant incentives, Michigan could consider developing or adjusting the MBDP to incorporate elements of well-rounded, coherent, grant-based incentive programs similar to FastTrack in Tennessee. Within a singular program, this approach is uniquely designed to address the often-overlooked job training and infrastructure development projects that can supplement typical capital economic incentives.

Tennessee's FastTrack program, while new and in need of further evaluation, represents a coherent and potentially impactful business attraction and expansion strategy. The program administers three individual but aligned grants that are each designed to address specific job training, infrastructure, and business development needs. This strategically aligned and well-rounded approach was informed by evaluations of Tennessee's traditional deal-closing tools and represents a unique opportunity for the state to address multiple business needs through one program.

Michigan could implement or adjust to a similar grant-focused deal-closing program and improve on Tennessee's transparency and claw-back efforts to gain a competitive advantage over other benchmark states. Michigan could also gain an advantage over Tennessee by prioritizing evaluation and transparency to build long-term sustainability and trust in the program's ability to protect and grow valuable taxpayer investments. While a few states have developed and executed a unique approach to talent development as a business-attraction tool, Michigan can incorporate aspects of each approach and leverage its structural advantages to gain a competitive edge.

These innovative strategies provide value to companies looking for talent and for states looking to support workforce development in their communities. Michigan can take advantage of this approach. While Alabama, South Carolina, and Louisiana compete against Michigan, they are not within the same region, which would provide Michigan an opportunity to gain an advantage over other Midwest states. Also, these states have a cabinet-level government agency that leads the economic development model, which reduces their flexibility and requires creative financing and significant intergovernmental coordination to launch and lead their programs.

Louisiana has allocated relatively limited resources to its signature talent development program and while Georgia and South Carolina have been offering their programs for decades, they both need significant resources for this line item to be approved through the legislative appropriations process. While the governors and legislatures in these states are currently supportive, that could shift with any administration change. The MEDC's public-private structure provides the ideal funding and coordination hub to develop and execute a talent and economic development strategy.

Programs like the ones mentioned above are effective tools for both workforce development and business attraction because of their close collaboration behind the scenes, which leads to a one-stop-shop experience for expanding and relocating companies. To succeed in this approach and outperform its competitors, Michigan must create and leverage more collaborative relationships between the MEDC, the Talent Investment Agency, and local Michigan Works! Associations (MWAs). Currently the MEDC has to refer companies to the TIA or MWAs, which can hurt perceptions of the MEDC's customer service when there is not a seamless and well-coordinated handoff. While MWAs are known throughout the state for being able to effectively serve individual existing business needs, being asked to step up and play a key role in the use of talent development services as a central component of business attraction would be difficult given the challenges presented by current interagency collaboration. Centralized leadership from the MEDC, greater strategic alignment between agencies, and adequate funding would be critical for an approach like this to succeed, but the MEDC's structure and location provide it with an opportunity to lead this effort in the Midwest and gain an advantage over its regional competitors.

To maintain its competitive advantage and be recognized as the best home for entrepreneurs, the MEDC could leverage, invest in, and adapt promising practices like Pure Michigan Business Connect.

In Michigan, a strong series of growth-acceleration-related programs fall under the PMBC services team. This program provides a free service that connects small- to medium-sized Michigan businesses with other local, national, and global companies for supply chain sourcing opportunities. It is designed to develop business-to-business relationships that can spur growth for suppliers and buyers. The PMBC team also offers matchmaking events and summits. PMBC has facilitated over $5 billion in purchasing contracts by Consumers Energy, DTE Energy, automotive original equipment manufacturers, major suppliers, and others. This innovative approach combines a number of individual strategies to create a coherent program that effectively links state businesses and forges valuable partnerships.

To maintain its organizational structure advantage over its competitors, the MEDC should consider adopting creative approaches being implemented by several benchmark states that have resulted in an improved customer experience, greater strategic alignment between state and regional economic development organizations, and greater funding flexibility.

For example, the private nonprofit JobsOhio, in partnership with the publicly funded DSA, has crafted and implemented a customer-service-oriented approach, which, according to an independent evaluation, was instrumental in producing high levels of customer satisfaction (McKinsey & Company 2018). In addition to leveraging this structural and philosophical approach, JobsOhio has also invested in a regional coordination and collaboration model that has not only improved the customer experience, but resulted in greater strategic alignment of state, regional, and local priorities. South Carolina has also developed a unique, decentralized approach which allows for local flexibility to fund projects that meet community needs and support the state's broader economic development goals. The MEDC could replicate the customer service and statewide coordination performance documented in these benchmark states by focusing on incorporating additional partners that have been left out in other models and leveraging the MEDC's staffing expertise and unique public-private organizational structure that incorporates business, community, and tourism development programs.

While not common among benchmark states, JobsOhio has tapped a nontraditional funding source to support its programs and services. With several public revenue streams potentially becoming available, such as marijuana taxation revenue, and private companies looking for ways to support state economic development efforts, the MEDC could look for opportunities to adjust its organizational structure to secure additional and truly independent sources of funding in the future.

Increasingly, economic inclusion is an explicit goal of EDOs. While the study found some creativity in this space, no state or EDO has developed a clear best practice. Therefore, the MEDC should build on its strategies—such as Rising Tide—that address economic inclusion, geographic incentives, procurement targets, and offices dedicated to the support of minority and disadvantaged businesses.

Given that this study did not identify a clear, comprehensive, and effective approach to economic inclusion operating within in an EDO in any of the benchmark states, Michigan could become an innovative leader in this space by piloting and experimenting with new structural and programmatic approaches to this challenge and leveraging its existing efforts.

Many states provide support to small businesses, including minority-owned and disadvantaged businesses, through Minority Business Enterprise offices that focus specifically on underserved communities. In providing services, it is common to give state certification to minority and disadvantaged businesses that help them to more effectively compete for state contracts. In Tennessee, the Department of Economic and Community Development has created a Business Enterprise Resource Office (BERO) that is committed to serving as a voice and advocate for economic inclusion. While this office appears to be a step in the right direction and provides valuable data dashboards and some resources for microenterprise development in rural and urban areas, BERO is relatively small and lacks the level of funding required to make a significant impact. The MEDC could create and fund an office to inform program and policy development and lead overall economic inclusion efforts within the EDO.

Ohio supports minority and disadvantaged businesses through state procurement targets. It has two flagship programs for supporting these businesses through state procurement. The Encouraging Diversity, Growth, and Equity program establishes goals for state agencies, boards, and commissions in awarding contracts to businesses that meet criteria for socially and economically disadvantaged individuals and regions. The Minority Business Enterprise program has a 15 percent set-aside goal, which is overseen by the Department of Administrative Services.

Michigan has shown its own leadership in supporting economic inclusion through its Community Ventures and Rising Tide programs, which are unique examples of programs that align services and incentives in distressed communities. Community Ventures, launched in 2012, incentivized the hiring of structurally unemployed residents of the state's most economically distressed urban communities.. The program also provided incentive funding and job retention services to ensure the long-term employment success of participants. The Rising Tide program, launched in 2016, provides economically challenged communities with the technical assistance and resources to design and build a solid planning, zoning, and economic development foundation to attract new businesses and help existing employers grow.

Michigan has the opportunity to build on the leadership shown by these programs by exploring new programs and policies to support economic inclusion. This could include establishing an office dedicated to supporting economic inclusion or minority and disadvantaged businesses and establishing procurement targets. Lastly, the MEDC could increase the diversity of its staff.

The MEDC has the opportunity to become a nationwide leader by leveraging a recently enacted Michigan law requiring regular and rigorous evaluations of tax incentives and using these findings to inform economic development policy and communicate its value to stakeholders.

To become a leading state in terms of evaluation, Michigan and the MEDC must effectively and actively use findings derived from evaluations to inform policy discussions moving forward. Other states, including Indiana and Tennessee, have benefited from the implementation of similar laws and used evaluation recommendations to adjust their programs and strategies. Since Indiana is the only state currently leading in incentive evaluation among the benchmark states, Michigan has an opportunity to gain an advantage over its regional and industry competitors. In addition to providing valuable insights for program and strategy adjustments, this systematic approach to conducting regular evaluations will further demonstrate the state's commitment to evidence-based policymaking and provide an opportunity for the MEDC to effectively communicate the value of its programs and investments to decision makers and taxpayers. This effort can also provide long-term sustainability for effective programs and make it easier for the MEDC to pivot away from strategies that research shows are not delivering a positive return on investment.

The MEDC should keep at the forefront of its attention the relative strengths—and weaknesses—of benchmark states.

Collectively, the 11 states in this study (ten benchmark states plus Michigan) have been ranked, sorted, and forecasted by a massive number of publications, trade associations, and peer groups—often with very different results. But from a broader competitive and comparative lens, several facts emerge:

- The MEDC's organizational structure continues to be a national model of interest—with several benchmark states implementing creative interpretations of the MEDC's structure, especially as it relates to funding streams and interactions with formal state departments.
- No single state emerges as an across-the-board equal competitor to the MEDC.
- Indiana and North Carolina are clearly innovators and states to watch; however, from an appropriations perspective, they are not keeping pace with Michigan's annual investment.
- Alabama, Illinois, Ohio, South Carolina, and Tennessee are spending more per year on economic development—as a share of GSP—than Michigan, but several of these states have massive public debts (Illinois) or economic development legacy costs (Tennessee) that will likely constrain any desired increases in state funding for their economic development efforts.

Appendix A: State Comparison Analysis—Summary Tables

The following tables provide additional analysis of how the surveyed states compare.

EXHIBIT A1. Michigan's Industry Sector Priorities and State Competition

Michigan's Priority Industry	Competitor States with Shared Industry Sector Focus
Advanced manufacturing	Illinois, Indiana, Ohio, South Carolina, Tennessee, Texas, Wisconsin
Aerospace	Alabama, Georgia, North Carolina, Ohio, South Carolina, Tennessee, Texas, Wisconsin
Agribusiness	Alabama, Indiana, Illinois, Ohio, South Carolina, Tennessee
Cybersecurity	N/A
Defense	Indiana, North Carolina, Tennessee, Texas
Mobility	Alabama (auto), Illinois (transportation), North Carolina (auto), Ohio (auto), South Carolina (auto), Tennessee (auto)
Medical devices	Tennessee
Healthcare	Tennessee
Carbon fiber/composite materials	N/A
Life sciences	Alabama, Illinois, Indiana, North Carolina, Ohio, South Carolina, Texas, Wisconsin
Information technology	Georgia, Texas

Source: Analysis completed by PSC.

According to Exhibit A1, based on comparative data between Michigan's priority industries and those of the surveyed states, advanced manufacturing, aerospace, and mobility/automotive industries are areas of high strategic competitiveness. Seven of the surveyed states pursue advanced manufacturing, eight pursue aerospace, and six pursue mobility/automotive. In addition, life sciences is an industry sector that eight out of ten surveyed states view as a promising growth industry. Only Tennessee prioritizes medical devices and healthcare along with Michigan, and no surveyed state prioritizes carbon fiber materials or cybersecurity, aside from Michigan. Five of the surveyed states prioritize agribusiness and four prioritize defense.

EXHIBIT A2. Industry Sector Priorities of the Surveyed States

State	Industry Sector Priorities
Alabama	**Aerospace/aviation**, **agricultural products/food production**, **automotive**, **bioscience**, chemicals, forestry products, metal and advanced materials
Georgia	**Aerospace**, energy technology, **information technology**, logistics, **manufacturing**
Illinois	**Advanced manufacturing**; **agribusiness and food processing**; transportation, distribution, and logistics; **life sciences and biotechnology**; business and professional services; energy
Indiana	**Advanced manufacturing**, logistics, **agbiosciences**, **aerospace**, **defense**, **life sciences**, technology
Michigan	Advanced manufacturing, aerospace, agribusiness, cybersecurity, defense, medical devices, healthcare, carbon fiber, life sciences, mobility, information technology
North Carolina	**Aerospace** and **defense**, **automotive**, food processing and **manufacturing**, **information technology**, **biotechnology and pharmaceuticals**, business and financial services, corporate headquarters, energy, furniture, plastics and chemicals, textiles

State	Industry Sector Priorities
Ohio	**Advanced manufacturing**, **aerospace** and innovation, **automotive**, **biohealth**, energy and chemicals, financial services, food and **agribusiness**, **information technology**, logistics and distribution
South Carolina	**Advanced manufacturing** and materials, **aerospace**, **agribusiness**, **automotive**, distribution and logistics, **life sciences**, office/shared services
Tennessee	**Advanced manufacturing**; **aerospace** and **defense**; **automotive**; business services; chemicals, plastics, and rubber; energy technology; entertainment; food and **agribusiness**; **healthcare and medical devices**; transportation, distribution, logistics
Texas	**Advanced technology and manufacturing**, **aerospace/aviation** and **defense**, **biotechnology and life sciences**, **information and computer technology**, petroleum refining and chemical products, energy
Wisconsin	**Aerospace manufacturing**; **biohealth**; energy, power, and control; food and beverage; forest products; **manufacturing**; water technology

Note: The industries highlighted in bold are those that are shared with Michigan.
Source: Analysis completed by PSC.

Based on Exhibit A2, one industry where Michigan may be at a competitive disadvantage based on the strategic priorities of other states, is the energy industry. Seven of the ten surveyed states prioritize the energy industry as a core industry while Michigan does not. Another notable absence for Michigan is furniture. North Carolina prioritizes furniture manufacturing, while Michigan, a traditional leader in this industry, does not.

EXHIBIT A3. Michigan's International Market Priorities and State Competition

Michigan's Priority Markets	Competitor States with Shared International Market Focus
China	Alabama, Georgia, Illinois, North Carolina, Tennessee
United Kingdom	Georgia
Canada	Alabama, Georgia, Illinois
Mexico	Georgia, Illinois, Texas
Japan	Georgia, Illinois, North Carolina, Tennessee
South Korea	Alabama, Georgia, North Carolina, Tennessee
Germany	Alabama, Georgia, North Carolina
Israel	Georgia, Illinois

Source: Analysis completed by PSC.

Aside from industry sectors, another major audience segmentation involves the prioritization and focus on international markets that are most likely to encourage exports and foreign investment. States often have trade representatives to foster these relationships with foreign investors as well as matchmaking with foreign buyers to increase exports of state products and services. These international market development efforts also include advertising and tourism initiatives to encourage foreign travel to the state. Based on the ten-state review, the markets these states are most likely to focus on are China, the United Kingdom, Canada, Mexico, Japan, South Korea, Germany, and Israel. Some states have staff housed in other countries (e.g., Texas with staff in Mexico); other states (e.g., North Carolina), however, rely on contract staff housed in other countries to help develop relationships in addition to their in-state staff.

EXHIBIT A4. Economic Development Staff by State

	Administrative Operations	Arts and Film	Business Investment	Community Vitality	Image	Total Economic Development Staff Identified	Total Agency Staff*	Budget per Economic Development Staffer
Alabama	42	4	46	11	70	**173**	**340**	**$989,565**
Georgia	35	11	34	12	12	**104**	**583**	**$1,205,599**
Illinois	104	13	60	39	12	**228**	**293**	**$1,530,955**
Indiana	33	N/A	38	15	19	**105**	**105**	**$1,232,388**
Michigan	90	12	96	53	31	**282**	**282**	**$927,720**
North Carolina	46	22	90	34	31	**223**	**245**	**$819,084**
Ohio	76	16	181	43	11	**327**	**396**	**$1,759,311**
South Carolina	55	2	42	37	25	**161**	**161**	**$1,213,186**
Tennessee	37	N/A	37	16	9	**99**	**99**	**$2,572,727**
Texas	33	14	68	37	17	**169**	**780**	**$770,040**
Wisconsin	69	N/A	52	N/A	23	**144**	**144**	**$469,361**

Note: *Agency staff includes all employees of the EDO, including staff for functions beyond those economic development functions of the MEDC.
Source: Analysis completed by PSC.

There can be some insight gleaned from comparing state appropriations to staffing levels. This information can help evaluate where resources are being dedicated. The average economic development budget per economic development staff person is $1.4 million. Michigan, Alabama, North Carolina, Texas, and Wisconsin are on the low end of the scale, while Illinois and Tennessee are on the high end. States like Michigan may be well staffed while states like Tennessee may be managing their programs with fewer staff. In addition, there is generally a greater commitment of staff to support business investment efforts and greater disparity between states regarding staff support for community vitality. Michigan is on the high end of this scale with 53 dedicated staff while Alabama is on the low end with 11.

EXHIBIT A5. 50-state Rankings by Economy

Overall	States	State Ranking
States in the Top Ten	Texas	8
States in the Middle Range	Tennessee	13
	Georgia	14
	South Carolina	15
	North Carolina	19
	Michigan	22
	Indiana	25
States in the Below-average Range	Wisconsin	27
	Ohio	32
	Alabama	38
	Illinois	39

Source: U.S. News and World Report 2018

Michigan sits in the middle of state rankings for economic stability and growth potential. Texas is in the top tier, and given their decline in economic development funding, it would appear they are relying on climate, talent, existing industrial base, infrastructure, business-friendly taxes, and other factors to drive their business investment and community vitality strategies. Other states in the middle and below-average range are more aggressively competing directly with Michigan to attract businesses and talent. Illinois, with their budget challenges, is the lowest ranking of the ten surveyed states, and Wisconsin's ranking is affected by the fallout of the Foxconn deal.

EXHIBIT A6. Economic Development Funding by State

State	Administrative Operations	Arts and Film	Business Investment	Community Vitality	Image	Total	Michigan Equivalent Budget
Alabama	$23,540,842	Included elsewhere	$63,267,118	$64,136,849	$20,250,000	$171,194,809	$412,000,000
Georgia	$12,666,680	$2,902,411	$14,507,153	$83,497,223	$11,808,887	$125,382,354	$113,000,000
Illinois	Included elsewhere	$2,346,800	$117,757,400	$165,392,700	$63,560,900	$349,057,800	$216,000,000
Indiana	$22,712,645	Included elsewhere	$63,937,982	$30,596,640	$12,153,523	$129,400,790	$186,000,000

State	Administrative Operations	Arts and Film	Business Investment	Community Vitality	Image	Total	Michigan Equivalent Budget
Michigan	$34,998,396	$11,150,000	$88,461,425	$86,358,284	$40,648,995	$261,617,100	N/A
North Carolina	$5,947,992	Included elsewhere	$113,391,510	$60,640,348	$2,675,930	$182,655,780	$171,000,000
Ohio	$15,532,000	Included elsewhere	$427,018,167	$111,210,604	$21,534,000	$575,294,771	$453,000,000
South Carolina	$21,102,880	$17,031,639	$89,882,065	$27,143,051	$40,163,262	$195,322,897	$448,000,000
Tennessee	$7,366,700	Included elsewhere	$137,604,200	$61,119,400	$48,609,700	$254,700,000	$370,000,000
Texas	Included elsewhere	$2,174,002	$16,921,111	$73,579,712	$37,461,921	$130,136,746	$40,000,000
Wisconsin	$19,905,200	N/A	$24,038,200	$11,000,000	$12,644,600	$67,588,000	$106,000,000

Source: Analysis completed by PSC.

Exhibit A6 provides an analysis of the appropriation spending per state and translates the data into the Michigan equivalent per state. For example, if Alabama had the same size GSP as Michigan, this would translate to $412 million of appropriation funding for economic development per year as opposed to $147 million, which is Alabama's actual appropriation. What this data shows is that Alabama (+ $151 million), Ohio (+ $192), South Carolina (+ $187), and Tennessee (+ $109) are spending considerably more per year than Michigan on economic development as a share of the gross state product. It should also be noted that Texas (- $155) is spending at a much lower rate than Michigan, yet it is leading the country in business attraction and economic growth. Texas has other advantages in climate, talent, tax policy and infrastructure that make the state unique, and Michigan cannot compete on the same scale. Georgia's appropriation spending could be considered deceptive given its heavy investment in tax incentives. Indiana and North Carolina are also innovators and states to watch, but based on their appropriation data alone, they are not keeping pace with Michigan.

EXHIBIT A7. Economic Development Funding by State per Million Residents

State	Population	Administrative Operations	Arts and Film	Business Investment	Community Vitality	Image	Total
Alabama	4,874,747	$4,829,141.29	Included elsewhere	$12,978,543.91	$13,156,959.53	$4,154,061.74	$35,118,706
Georgia	10,429,379	$1,214,519.10	$278,291.83	$1,390,989.15	$8,005,963.06	$1,132,271.35	$12,022,034
Illinois	12,802,023	Included elsewhere	$183,314.78	$9,198,343.11	$12,919,262.84	$4,964,910.62	$27,265,831
Indiana	6,666,818	$3,406,819.42	Included elsewhere	$9,590,479.60	$4,589,391.82	$1,822,987.07	$19,409,678
Michigan	9,962,311	$3,513,080.05	$1,119,218.22	$8,879,608.86	$8,668,499.11	$4,080,277.66	$26,260,684
North Carolina	10,273,419	$578,969.09	Included elsewhere	$11,037,368.38	$5,902,645.26	$260,471.22	$17,779,454
Ohio	11,658,609	$1,332,234.40	Included elsewhere	$36,626,853.77	$9,538,925.61	$1,847,047.10	$49,345,061
South Carolina	5,024,369	$4,200,105.53	$3,389,806.56	$17,889,224.50	$5,402,280.56	$7,993,692.74	$38,875,110
Tennessee	6,715,984	$1,096,890.64	Included elsewhere	$20,489,060.13	$9,100,587.49	$7,237,911.82	$37,924,450
Texas	28,304,596	Included elsewhere	$76,807.38	$597,822.03	$2,599,567.65	$1,323,527.85	$4,597,725
Wisconsin	5,795,483	$3,434,605.88	Included elsewhere	$4,147,747.48	$1,898,029.90	$2,181,802.62	$11,662,186

Source: Analysis completed by PSC.

EXHIBIT A8. Comparative Analysis of State Economic Development Programs and Policies

Funding (Exhibit B2)	**Michigan**	**Alabama**	**Georgia**	**Illinois**	**Indiana**	**North Carolina**	**Ohio**	**South Carolina**	**Tennessee**	**Texas**	**Wisconsin**
Nominal	$261,617,100	$171,194,809	$125,382,354	$349,057,800	$129,400,790	$182,655,780	$575,294,771	$195,322,897	$254,700,000	$130,136,746	$67,588,000
Nominal compared to Michigan	*$0*	*($90,422,291)*	*($136,234,746)*	*$87,440,700*	*($132,216,310)*	*($78,961,320)*	*$313,677,671*	*($66,294,203)*	*($6,917,100)*	*($131,480,354)*	*($194,029,100)*
Michigan equivalent	**$261,617,100**	**$412,514,829**	**$113,212,919**	**$215,961,850**	**$186,936,578**	**$171,979,566**	**$453,382,494**	**$448,377,459**	**$370,794,045**	**$40,256,393**	**$107,027,881**
Equivalent compared to Michigan	***$0***	$150,897,729	***($148,404,181)***	***($45,655,250)***	***($74,680,522)***	***($89,637,534)***	$191,765,394	$186,760,359	***$109,176,945***	***($221,360,707)***	***($154,589,219)***
Gross domestic product	$508,905,000,000	$211,197,000,000	$563,608,000,000	$822,540,000,000	$352,273,000,000	$540,497,000,000	$645,747,000,000	$221,690,000,000	$349,569,000,000	$1,645,136,000,000	$321,373,000,000
EDO spending as % GDP	0.05%	0.08%	0.02%	0.04%	0.04%	0.03%	0.09%	0.09%	0.07%	0.01%	0.02%
Calculate: MI funding at leader level of 0.1% GDP	**$453,382,494**										

Functional Staffing (Ex. A4)	**Michigan**	**Alabama**	**Georgia**	**Illinois**	**Indiana**	**North Carolina**	**Ohio**	**South Carolina**	**Tennessee**	**Texas**	**Wisconsin**
Administrative Operations	90	42	35	104	33	46	76	55	37	33	69
Arts and Film	12	4	11	13	N/A	22	16	2	N/A	14	N/A
Business Investment	96	46	34	60	38	90	181	42	37	68	52
Community Vitality	53	11	12	39	15	34	43	37	16	37	N/A
Image	31	70	12	12	19	31	11	25	9	17	23
Total	**282**	**173**	**104**	**228**	**105**	**223**	**327**	**161**	**99**	**169**	**144**
EDO staff per 1 million residents	28	35	10	18	16	22	28	32	15	6	25

Functional Funding (Ex. B1)	**Michigan**	**Alabama**	**Georgia**	**Illinois**	**Indiana**	**North Carolina**	**Ohio**	**South Carolina**	**Tennessee**	**Texas**	**Wisconsin**
Administrative Operations	$34,998,396	$23,540,842	$12,666,680	Inc. elsewhere	$22,712,645	$5,947,992	$15,532,000	$21,102,880	$7,366,700	Inc. elsewhere	$19,905,200
Arts and Film	$11,150,000	Inc. elsewhere	$2,902,411	$2,346,800	Inc. elsewhere	Inc. elsewhere	Inc. elsewhere	$17,031,639	Inc. elsewhere	$2,174,002	N/A
Business Investment	$88,461,425	$63,267,118	$14,507,153	$117,757,400	$63,937,982	$113,391,510	$427,018,167	$89,882,065	$137,604,200	$16,921,111	$24,038,200
Community Vitality	$86,358,284	$64,136,849	$83,497,223	$165,392,700	$30,596,640	$60,640,348	$111,210,604	$27,143,051	$61,119,400	$73,579,712	$11,000,000
Image	$40,648,995	$20,250,000	$11,808,887	$63,560,900	$12,153,523	$2,675,930	$21,534,000	$40,163,262	$48,609,700	$37,461,921	$12,644,600
Total	**$261,617,100**	**$171,194,809**	**$125,382,354**	**$349,057,800**	**$129,400,790**	**$182,655,780**	**$575,294,771**	**$195,322,897**	**$254,700,000**	**$130,136,746**	**$67,588,000**
Calculate: MI spending at average per-staff funding level	**$354,254,551**										

Functional Spending per Staffer	**Michigan**	**Alabama**	**Georgia**	**Illinois**	**Indiana**	**North Carolina**	**Ohio**	**South Carolina**	**Tennessee**	**Texas**	**Wisconsin**
Administrative Operations	$388,871	$560,496	$361,905	N/A	$688,262	$129,304	$204,368	$383,689	$199,100	N/A	$288,481
Arts and Film	$929,167	N/A	$263,856	$180,523	N/A	N/A	N/A	$8,515,820	N/A	$155,286	N/A
Business Investment	$921,473	$1,375,372	$426,681	$1,962,623	$1,682,578	$1,259,906	$2,359,216	$2,140,049	$3,719,032	$248,840	$462,273
Community Vitality	$1,629,402	$5,830,623	$6,958,102	$4,240,838	$2,039,776	$1,783,540	$2,586,293	$733,596	$3,819,963	$1,988,641	N/A
Image	$1,311,258	$289,286	$984,074	$5,296,742	$639,659	$86,320	$1,957,636	$1,606,530	$5,401,078	$2,203,642	$549,765
Total, Per Staffer	**$927,720**	**$989,565**	$1,205,600	$1,530,955	$1,232,388	**$819,084**	$1,759,311	$1,213,186	$2,572,727	**$770,040**	**$469,361**
Calculate: MI spending per staffer at 0.1% GDP EDO funding	**$1,607,739**										
Calculate: MI spending per staffer at benchmark average	**$1,256,222**										

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Approach to Industry Sector and Region (Ex. B3)	Michigan	Alabama	Georgia	Illinois	Indiana	North Carolina	Ohio	South Carolina	Tennessee	Texas	Wisconsin
Industry Sector Approach	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Dedicated Staff by Industry	Yes: Automotive, mobility, cyber, defense	No	Yes: Centers of Innovation	No	No	No	Yes	No	No	Yes: Aerospace, aviation, and defense	No
Incentives/Funding Tied to Industry	No	No	No	No	No	Yes	Yes	Yes	No	No	No
Dedicated Staff by Region/Field Staff	Yes/Yes	No/No	Yes/Yes	Yes/Yes	Yes/Yes	Yes/Yes	No	No	Yes/Yes	No	Yes/Yes
Incentives/ Funding Tied to Region ** highlight MI, TX, OH, GA, NC, SC	Yes: Renaissance Zones	Yes: Enterprise Zones	Yes: County tier designations and Enterprise Zones	Yes: Enterprise Zones	Yes: Regional Cities and Enterprise Zones	Yes: County tier designations	Yes: Funding to regional EDOs and Enterprise Zones	Yes: Funding to regional EDOs and Enterprise Zones	Yes: County tier designations	Yes: Enterprise Zones	Yes: Enterprise Zones and Electronics and IT Manufacturing Zone

Relative Emphasis: Tax Incentives vs. EDO Budget (Programs) (Ex. B9)	Michigan	Alabama	Georgia	Illinois	Indiana	North Carolina	Ohio	South Carolina	Tennessee	Texas	Wisconsin
Ratio Tax Credits/ Economic Development Budget	6.6	5.1	3	6.4	16	5.3	1.9	5.3	10.1	23.8	11.5
Tax Credit Cost per Capita	$173	$180	$36	$175	$310	$95	$95	$206	$382	$109	$134
Tax Credit Cost per $1 Million GDP	$3,382	$4,162	$667	$2,716	$5,873	$1,798	$1,711	$4,678	$7,332	$1,883	$2,418

Leading Programs: Economic Inclusion, Workforce Alignment, and Community Development	Michigan	Alabama	Georgia	Illinois	Indiana	North Carolina	Ohio	South Carolina	Tennessee	Texas	Wisconsin
Program Alignment: EDO Tools and Economic Inclusion	Yes: Community Ventures and Rising Tide	No	Yes: One Georgia Equity Fund	No	No	No	No	No	No	No	No
Procurement Incentives for State Agencies	No	No	No	No	No	No	Yes	No	No	No	No
Workforce Development Support	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Workforce Development Staff Co-located with EDO Staff	No	Yes	No	Yes	No	Yes	No	No	No	No	No
Workforce Programs Tightly Integrated into EDO Toolkit	No	No	Yes	No	No	No	No	Yes	No	No	No
Community Development Collocated with Economic Development	Yes	No	No	Yes	No	Yes	No	Yes	Yes	No	Yes
Ratio, Business Investment to Community Vitality Staff	1.8	4.2	2.8	1.5	2.5	2.6	4.2	1.1	2.3	1.8	N/A
Funding Ratio, Business Investment to Community Development Budgets	$1.02	$0.99	$0.17	$0.71	$2.09	$1.87	$3.84	$3.31	$2.25	$0.23	$2.19

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Source: Analysis completed by PSC.

Appendix B: State Studies

Michigan

Introduction

Part two of this report provides state-by-state summaries of the ten benchmark states. For ease of comparison, Appendix B presents a similar review of Michigan's own programs and initiatives.

Overview

Over the past eight years, Michigan's economy has seen a resurgence, leading the Midwest and outpacing the United States in employment, gross domestic product (GDP), and per-capita income growth. Michigan is now ranked 11th as a probusiness state and third as a top state for technology and innovation (CNBC 2018). During this time period, the Michigan Economic Development Corporation (MEDC) launched several innovative initiatives that may have contributed to the state's success, most notably the new "grow from within" strategy guiding its Pure Michigan Business Connect (PMBC) efforts, the shift away from tax incentives to a grant-based business-attraction program under the Michigan Business Development Program (MBDP), and the continuation of the popular Pure Michigan tourism campaign. Some of the MEDC's efforts are viewed as potential best practices to be improved upon in the years ahead (Vanhulle 2017).

Strategic Focus

The MEDC's vision for Michigan is to be a top-ten state for low unemployment, GDP growth, per-capita income, and talent retention and growth (MEDC 2018a). The MEDC's mission, designed to further the goals set out in its vision, is to market opportunities in Michigan and provide the tools to assist in job creation and investment (MEDC 2018a). The organization's mission is executed through a strategy built on three focus areas:

- Business investment
- Community vitality
- Image

Business Investment

The MEDC's business development (BD) team is focused on retaining and growing existing Michigan businesses and attracting new businesses to the state through customized programs and services that add value to and leverage Michigan's economic assets (MEDC 2018b).

- **Entrepreneurship:** The BD team supports entrepreneurship and startups by building partnerships with universities to develop and test new ideas, funding Small Business Development Centers (SBDCs) to help entrepreneurs establish businesses, and assisting small businesses in identifying access to capital and product and licensing networks to help grow their business.

- **Growth:** The BD team has field staff throughout the state focused on providing services and delivering programs tailored to help retain and grow Michigan's existing businesses. The team focuses its efforts on assisting growth-oriented companies, companies critical to supply chains, and companies that could act as leaders in new industries.

- **Attraction:** The BD team leads a coordinated national and international business strategy to retain and attract new firms to Michigan. The team targets national and global businesses in core industry focus areas, site consultants, multinational corporations, as well as U.S. and foreign headquarters of companies with a presence in Michigan. The BD team also hosts and attends Michigan familiarization tours, trade shows, and conferences to enhance these relationships. Business-attraction efforts are conducted across the U.S. and internationally, focused on Canada, Europe, China, India, Japan, and Israel.
- **Automotive/mobility:** Part of the BD team is dedicated to automotive/mobility specifically. They promote the automotive industry through investing in cutting-edge automotive-related infrastructure, assessing new technologies and strategic development, and establishing strategic collaboration through formal international partnerships with other governments. These partnerships will lead to increased exposure to Michigan's automotive ecosystem, aiding in the attraction of foreign direct investment. To supplement the efforts of their automotive office—a special division created to focus solely on this industry—the MEDC also manages the state's collective mobility efforts through the PlanetM brand. PlanetM is focused on increasing brand awareness, increasing matchmaking between mobility-focused audiences, improving coordination among mobility assets, and increasing mobility-focused investment in Michigan.

Community Vitality

Michigan's community development (CD) team promotes community vitality through programs and services that create vibrant, unique, and sustainable communities across the state to help attract talent and "create places where people want to live, work, and play" (MEDC 2018a). Their efforts focus on financial and technical assistance to increase jobs and investments in Michigan downtowns and commercial districts.

- **Technical assistance:** The CD team's Redevelopment Ready Community (RRC) program, a no-cost communitywide certification program, and Michigan Main Street, which is focused on the revitalization and preservation of traditional downtown or commercial districts, are two technical assistance programs that act as the foundation for community engagement and identifying priority development. These programs feed into all of the MEDC's CD efforts.
- **CD services:** The MEDC has CD field staff, known as the Community Assistance Team (CATeam), working regionally throughout the state as the main points of contact for communities and developers interested in accessing MEDC CD programs and services. The CATeam connects stakeholders to technical assistance programs and incentive programs managed by the MEDC.
- **CD programs:** After communities become engaged with the RRC process, they may work with a CATeam specialist to access programs to help fund projects. These programs can include state-funded, cash-based loan and grant programs or federally funded infrastructure improvement programs with complex federal rules and regulations. It is at this point that an MEDC program specialist is assigned to ensure the customer can effectively access the program.

Image

The marketing and communications (MarComm) team supports all core areas of the MEDC's strategic focus by improving and promoting the state's image as a preferred business location and travel destination. MarComm does this by:

- Advancing the Pure Michigan tourism brand
- Extending that brand across business marketing initiatives
- Highlighting the state's advantages in core industries to demonstrate why Michigan is the best place for a business to locate or expand

The core functions of the unit include business marketing, public relations, digital marketing, event planning, and protocol and tourism. MarComm also supports high-level national and international business investment trips.

Audience Segmentation

The MEDC divides the market for its economic development efforts by industry sector, region, and international market and focuses on ten key growth industries (MEDC 2019d). The following industries were identified based on the state's competitive advantage and growth opportunities and are represented in Michigan's ten prosperity regions, each with its own dedicated MEDC staff.

- Medical devices
- Cybersecurity
- Healthcare
- Defense
- Carbon fiber/composite materials
- Aerospace
- Lifesciences
- Automotive/mobility
- Information technology
- Agribusiness

On a global scale, Michigan focuses on developing trade, investments, and tourism opportunities with international markets located in Canada, Europe, China, India, Japan, and Israel, and each market has its own assigned international trade representative (MEDC 2018a).

Tactics

Business Investment—Key Initiatives

The BD team connects businesses to a variety of tools and resources offered through the Michigan Strategic Fund (MSF) and the MEDC. These tools include cash-based grants, loans, tax abatements, technical assistance and a variety of value-add services. Key programs and services used to further the MEDC's business-growth strategy are provided below.

Michigan Business Development Program

The MBDP is the state's signature incentive program for attracting and recruiting businesses. This program is available from the MSF, in cooperation with the MEDC, and provides grants, loans, and other economic assistance to businesses that commit to creating jobs and investing in Michigan (MEDC 2018b). Michigan spends around $60 million annually on this effort.

Pure Michigan Business Connect

PMBC helps Michigan businesses grow by connecting local, national, and global purchasers to Michigan suppliers by offering customized procurement or joint venture matchmaking searches, events, summits, and buyer tours. They also offer dedicated international trade services for Michigan businesses wanting to start or expand export activities (MEDC 2018a). PMBC also connects Michigan businesses by introducing them to the purchasing pipelines of the state's larger companies. Through this business-to-business (B2B) network, presented in an online portal that is free to all Michigan businesses, Michigan companies are encouraged to increase their procurement spending within the state. PMBC also supports international companies looking for joint ventures or research and development partnerships with qualified Michigan partners. PMBC includes access to the B2B network online portal, targeted searches and facilitated connections between companies, and MEDC matchmaking initiatives (MEDC 2019c).

International Trade Program

The MEDC's International Trade Program connects Michigan's businesses with resources and opportunities to increase exports in global markets. Regionally based international trade managers work with companies to identify their export development objectives and recommend programs and resources, including small-business support services, International Trade Center assistance, and events such as cultural programs and international trade shows and missions. The MEDC international trade team works to educate and provide technical support to businesses so they can better access export markets and arrange financial assistance for qualified export development activities. In support of these efforts is the Michigan State Trade Expansion Program, funded in part through a grant with the U.S. Small Business Administration, which provides reimbursements for small businesses that develop or expand export-related activities. The objectives of the program are to increase the dollar value of Michigan exports, expand the number of Michigan companies that export, and introduce current exporters to new foreign markets and buyers (MEDC 2019b).

Capital Access Program

The Capital Access Program is a loan enhancement program that uses public resources to leverage private bank financing to provide access to capital that might not otherwise be available for small Michigan businesses. The program supports growing businesses through loan participation, collateral support, and other flexible financial instruments. This program operates on a pooled reserve concept in which a reserve account at each participating bank protects each enrolled loan under the program. Participating banks offer Capital Access Program loans directly to companies that need credit enhancement, making it possible for these companies to receive fixed-asset and working-capital financing. The reserve account is funded through one-time premium charges paid in equal parts by the borrower and the lender, and the sum of those charges is matched by the MSF (MEDC 2018b).

Michigan Site Readiness Program

The Michigan Site Readiness Program, established in 2018, was designed with the goal of developing and implementing a best-in-class site readiness program to provide industrial sites that are ready for or could be repurposed for development or redevelopment. This program allows the MEDC to provide an adequate site and compete globally for these prospects (MEDC 2018c).

Good Jobs for Michigan Program

The Good Jobs for Michigan Program allows businesses to capture revenues for tax withholding on large-scale job creation projects in the state. This program, enacted into law in 2016, allows for up to 15 projects per year with a rolling cap of $200 million for all projects. Currently, MSF has approved three projects under this program (MEDC 2018b).

Jobs Ready Michigan

The MEDC launched Jobs Ready Michigan in April 2019. The purpose of the program is to provide grants for business expansion and relocation projects in Michigan. The program is being administered under the MBDP, the state's flagship business-attraction tool, with an initial budget of $10 million (Achtenberg 2019).

State Essential Services Assessment Exemption

The State Essential Services Assessment (SESA) Exemption, as a result of personal property tax reform, provides an exemption to the essential services assessment on new qualifying personal property used for purposes such as industrial processing, including manufacturing and research. The MSF, in certain circumstances, may choose to exempt or reduce the assessment for projects that create jobs and/or private investment in Michigan through this exemption. The SESA Exemptions are equal to a 100 percent exemption of the SESA for a period of up to 15 years. The alternative SESA Exemptions are equal to a 50 percent exemption of the SESA for a period of 15 years (MEDC 2018b).

Renaissance Zones

Renaissance Zones are tools that virtually eliminate state and local property taxes. Renaissance Zones are regions of the state designated as virtually tax free for up to ten years for any business or resident. The program, created in 1996, provides selected communities with a market-based incentive of reduced state or local taxes as a way to promote economic development. In Renaissance Zones, companies and residents do not pay Michigan personal income taxes, education taxes, local personal and real property taxes, or local income taxes. There are specialized renaissance zones for industries, including agricultural processing, forest products, and renewable energy. Michigan currently has 21 zones across the state, and in all cases, the tax relief is phased out in 25 percent increments over the last three years of the zone designation (MEDC 2018b).

Community Vitality—Key Initiatives

The MEDC offers a wide range of programs and services that are designed to support and sustain vibrant communities using grants, loans, credits, tax increment financing (TIF), and other economic assistance tools. Key programs and services used to further the MEDC's community vitality and revitalization strategies are provided below.

Community Development Block Grants

The U.S. Department of Housing and Urban Development allocates Community Development Block Grant (CDBG) funding to the State of Michigan through the MSF, with assistance from the MEDC, for further distribution to local units of government in cities with populations less than 50,000 for infrastructure improvements, historic preservation of buildings, elimination of blight, rental rehabilitation, business improvements related to job creation, and downtown façade improvements.

Community Revitalization Program

The Michigan Community Revitalization Program (MCRP) promotes community revitalization through the provision of grants, loans, or other economic assistance for eligible projects located on properties that are either contaminated (facility), blighted, functionally obsolete, or historic resources. The amount of support is determined by a needs analysis and funding commitments are expressed as a percentage of the MCRP-eligible investment.

Brownfield Tax Increment Financing

Brownfield TIF is designed to put brownfield properties/buildings back into productive use through the use of TIF to reimburse costs related to redevelopment of contaminated, functionally obsolete, blighted, or historic properties over a period of up to 30 years. The MSF portion of the program is used to reimburse for nonenvironmental activities, and the Michigan Department of Environmental Quality portion of the program is used to reimburse for environmental activities. Eligible program uses include demolition; lead, asbestos, and mold abatement; site preparation; infrastructure improvements; assistance to land banks; and support for local governmental units. Certain activities, such as demolition and lead, asbestos, and mold abatement are available to all communities statewide.

Transformational Brownfield Program

The recently adopted Public Act 46 of 2017 incorporates Transformational Brownfield Plans (TBP) into the Brownfield Redevelopment Financing Act. A TBP is a brownfield plan that will have a marked impact on local economic development and community revitalization while also having an overall positive fiscal impact on the state. Submitting a TBP allows developers the opportunity to capture a portion of specific taxes, including income and withholding taxes generated from large-scale projects for a specified time.

Image—Key Initiatives

To support the development and communication of the state's brand and strategic priorities, the MarComm team uses a variety of business, tourism, and public marketing strategies that are designed to reach and inform targeted audiences. The key initiatives below are specifically focused on promoting and improving the state's image.

Pure Michigan Campaign and Familiarization Tours

The MEDC's tourism team manages the Pure Michigan brand and campaign. The campaign's objectives are to position Michigan as one of America's top four-season travel destinations, drive traffic to Michigan.org, and promote tourism and recreational activities in Michigan. The tourism team also hosts familiarization tours with national and international media and international tour operators. Last year, the MEDC hosted 34 such trips, showcasing every season and corner of the state. These familiarization tours offer a significant area of growth and opportunity. Unlike in the U.S., where most travelers plan their own trips, in the state's target markets of the United Kingdom, Germany, and China, travelers frequently rely on tour operators or packaged trips.

Pure Business and PlanetM Campaigns

The Pure Business campaign is primarily directed to senior management, their teams, and site consultants. Campaign objectives are to increase consideration of Michigan as the right place to do business, to generate leads for business development, and to position Michigan as a leader in targeted industries. Target industries, as decided by the MEDC, are advanced manufacturing, aerospace, agriculture, cybersecurity, and defense. The PlanetM campaign is targeted to senior executives, entrepreneurs, and policymakers throughout the U.S. to create awareness of Michigan's mobility industry, to promote Michigan as a great place to grow and innovate for businesses already located in the state, and to engage the audience in Michigan's available assets.

These campaigns reach their target audiences through a variety of channels focused on earning the attention and consideration of decision makers, including print and digital ads, event sponsorships, custom content, direct mail, social listening and targeting, custom websites, and more. All campaigns are benchmarked for performance against industry averages, and resources are shifted accordingly.

Organizational Structure and Staffing

The MEDC's unique public-private approach to economic development provides the economic development organization (EDO) with dynamic teams leading programs and services, organized by focus area in Exhibit A1 below, that are designed to advance the state's business and community development priorities.

EXHIBIT B1. MEDC Structure and Services

Division	Full-time Equivalent Staff (FTEs)	Description
Business Investment		
Management—Business Development	2	Provides leadership of the business development area of the MEDC.
Entrepreneurship and Innovation	6	Supports—either directly or through the financial support of service providers—startups and early-stage companies through university partnerships, services, and funding.
Capital Access	4	Increases the availability of capital for companies through a variety of programs.
Management—Business Development Projects	1	Provides leadership of the business development projects and strategic project units at the MEDC.
Business Development Projects	8	Provides technical assistance and support in the packaging of business incentives.
Strategic Projects	2	Supports the area of business incentives in the business development team.
Retention and Growth	22	Establishes and strengthens relationships with company leaders in coordination with local economic development partners.
National and Global Business Development	24	Targets national and global businesses in core industry focus areas.
Management—Supplier and Mobility Programs	1	Provides leadership to the PMBC, international trade, and mobility (PlanetM) teams.
Automotive/Mobility	7	Provides staffing support to automotive industry and the PlanetM initiative.
Pure Michigan Business Connect	7	Helps businesses access the online B2B network, targets searches and facilitates connection between companies, and launches matchmaking initiatives.
Defense Operations	1	Provides business development services to assist companies in the defense industry.
Cyber Initiatives	1	Provides business development services to assist companies in the area of cybersecurity.
International Trade	10	Specializes in an international market, and works with local, state, and international partners to increase exports statewide.
Community Vitality		
Management—Leadership and Special Projects	3	Provides leadership and special projects support for community development and MarComm.
Management—Community Development	2	Provides leadership for the community development area of the MEDC.

Division	Full-time Equivalent Staff (FTEs)	Description
Community Assistance Team	15	Acts as main point of contact for communities and developers interested in community development programs and services.
Community Development Block Grant	9	Provides program administration and technical assistance of the CDBG program.
Community Revitalization Program, Brownfields, SmartZones	11	Provides program administration and technical assistance in support of the MCRP and Brownfield and SmartZone programs.
Redevelopment Ready Communities	9	Provides assistance in the field, administration, and technical assistance to support the RRC program.
Main Street	4	Provides assistance in the field, program administration, and technical assistance to support the Michigan Main Street program.
Image		
Management—Marketing and Communications	2	Provides leadership of MarComm at the MEDC.
Travel	9	Manages the Pure Michigan brand and campaign and hosts familiarization tours with national and international media and international tour operators.
Business Marketing	8	Manages Michigan's business marketing efforts, with a focus on the Pure Michigan and PlanetM campaigns.
Public Relations	7	Promotes and improves Michigan's image as a business location and travel destination.
Protocol and Events	5	Provides international etiquette, event planning, and travel coordination in support of enhancing Michigan's image.
Administrative Operations		
Executive Office	2	Provides leadership and support to the MEDC.
Management—Administrative Operations	4	Provides leadership of the administrative operations of the MEDC.
Financial Services	21	Manages the budget and finances of the organization and covers the Workforce Development Agency.
Human Resources	7	Manages the staffing and administrative functions of the MEDC.
Info Technology	27	Provides technology, tools, and resources to support MEDC staff and programs. The MEDC utilizes the Department of Technology, Management, and Budget's network for Internet connectivity and security.
Strategy and Policy	7	Helps focus the MEDC's resources by executing cross-functional strategic projects. Provides data and analysis for executive decision making.
Legal and Compliance	22	Provides legal services for the MEDC and MSF and timely and efficient compliance support to promote the achievement of key results and to ensure compliance with applicable laws, rules, guidelines, policies, and procedures.

Division	Full-time Equivalent Staff (FTEs)	Description
Arts and Film		
Management—Film Office and Michigan Council for Arts and Cultural Affairs (MCACA)	1	Provides leadership of the Film Office and MCACA.
Film and Digital Media	4	Supports film and media industries through technical assistance. Note: Tax credits and other incentives were discontinued.
Michigan Council for Arts and Cultural Affairs	7	Provides technical assistance to develop the arts and culture policy and provides grants to assist artists and communities.

Source: MEDC 2018b; MEDC organizational charts

Funding

The Michigan Strategic Fund was created in 2012, and it has the statutory authority, through its 11-member board, to direct state appropriations to support economic development, including the functions of the MEDC. It receives an annual appropriation from the Legislature, which totaled $260 million for fiscal year (FY) 2019. Of that funding, $121 million is general fund/general purpose funding, the remainder is comprised of federal and other restricted funds. Total funding for the MSF has declined over the past six years by 18.4 percent and is currently at its lowest level since 2014. The MEDC's key programs have correspondingly seen reduced funding:

- Funding for business investment and community revitalization loans and grants has declined by 12.2 percent since 2014 and is currently at its lowest level in six years.
- Funding to promote entrepreneurship has been reduced by more than 42 percent over the past four years.

Despite these declines in funding, the Pure Michigan tourism campaign has seen an increase in funding since 2014, growing by 24 percent, due to the support of legislative leadership.

EXHIBIT B2. Appropriation Funding for the MEDC

Line Item	FY 2017	FY 2018	FY 2019
Administrative Operations			
Administrative Services	$5,743,600	$6,212,900	$6,418,300
Job Creation Services	$21,948,400	$22,048,000	$22,268,900
Business Attraction and Community Revitalization	$4,619,996	$4,620,000	$4,215,196
Pure Michigan (Michigan Promotion Program)	$1,360,000	$1,400,000	$1,440,000
Entrepreneurship Ecosystem (Innovation and Entrepreneurship)	$776,000	$736,000	$656,000
Total Administrative Operations	**$34,447,996**	**$35,016,900**	**$34,998,396**
Business Investment			
Community College Skilled Trades Equipment Program	$4,600,000	$4,600,000	$4,600,000
Economic Gardening	$250,000	$250,000	$250,000

Line Item	FY 2017	FY 2018	FY 2019
Business Attraction and Community Revitalization	$65,104,909	$63,063,000	$57,537,425
Legislative Earmark Grants/Other	$12,336,000	$35,897,000	$1,350,000
Protect and Grow	$3,000,000	$1,000,000	N/A
Entrepreneurship Ecosystem (Innovation and Entrepreneurship)	$17,654,000	$18,744,000	$17,424,000
Film Incentive Funding	N/A	N/A	N/A
Facility for Rare Isotope Beams	$7,300,000	$7,300,000	$7,300,000
Special Grants/Miscellaneous Programs	$7,000,000	N/A	N/A
Total Business Investment	**$117,244,909**	**$130,854,000**	**$88,461,425**
Community Vitality			
Community Ventures	N/A	N/A	N/A
Community Development Block Grant	$47,000,000	$47,000,000	$47,000,000
Business Attraction and Community Revitalization	$40,000,000	$42,042,000	$38,358,284
Rising Tide		$2,000,000	$1,000,000
Total Community Vitality	**$87,000,000**	**$91,042,000**	**$86,358,284**
Image			
Entrepreneurship Ecosystem (Innovation and Entrepreneurship)	$970,000	$920,000	$820,000
Business Attraction and Community Revitalization	$5,774,995	$5,775,000	$5,268,995
Pure Michigan (Michigan Promotion Program)	$32,640,000	$33,600,000	$34,560,000
Total Image	**$39,384,995**	**$40,295,000**	**$40,648,995**
Arts and Film			
Michigan Film Office	N/A	N/A	N/A
Arts and Cultural Grants	$10,150,000	$11,150,000	$11,150,000
Total Arts and Film	**$10,150,000**	**$11,150,000**	**$11,150,000**
Gross Appropriation			
Federal	$53,436,600	$62,599,100	$53,936,100
Other	$5,364,500	$6,336,300	$10,201,300
Michigan Film Promotion Program	N/A	$402,200	N/A
21st Century Jobs Fund	$75,000,000	$75,000,000	$75,000,000
General Fund/General Purpose	$154,426,800	$164,020,300	$122,479,700
Total Funding	**$288,227,900**	**$308,357,900**	**$261,617,100**

Source: Appropriation data categorized by MEDC finance staff, January 2019.

Evaluation

Key Overall Measures

The MEDC's key overall measures to determine the impact of its strategies and initiatives are:

- **Private investment:** Private capital expenditures committed by businesses as a result of MEDC incentive programs.
- **Jobs:** The sum of incented jobs, facilitated jobs, and job growth.
- **Customer satisfaction:** The proportion of customers that are satisfied with the MEDC.

Business Investment Metrics

The MEDC measures the progress in achieving its business investment goals as follows:

- **Private investment:** Private capital expenditures committed by businesses as a result of MEDC business incentive programs. Additionally, private investment includes support from the MEDC, not in the form of an incentive, that resulted in private investment.
- **Incented jobs:** The number of jobs projected to be created by businesses as a result of MEDC business incentive programs.
- **Facilitated jobs:** The estimated number of jobs supported from increased revenue as a result of services provided by the MEDC. Facilitated jobs also include support from the MEDC, not in the form of an incentive, that resulted in job creation.
- **Business customer satisfaction:** The proportion of business customers that are satisfied with the MEDC.
- **Business starts:** The number of technology businesses that have registered with the state's Department of Licensing and Regulatory Affairs in the last year and began working with an MEDC contractor. (MEDC 2019a)

Community Vitality Metrics

The MEDC measures the progress in achieving its community vitality goals as follows:

- **Private investment:** Private investment committed as a result of community development incentive programs deployed in downtowns.
- **Job growth:** The number of jobs projected to be created by businesses as a result of MEDC community incentive programs.
- **Community customer satisfaction:** The proportion of community customers that are satisfied with the MEDC.
- **Revitalized square footage:** Total square footage of real estate being improved as a result of downtown private investment.
- **Public space reactivated:** Total square footage of publicly owned hard infrastructure (e.g., streets, sidewalks, farmers markets, green space, etc.) being improved as a result of community development incentive programs. (MEDC 2019a)

Image Metrics

The MEDC measures progress in achieving its image goals as follows:

- **Travel advertising return on investment:** The ratio of tax dollars generated by visitor spending to the cost of the Pure Michigan summer travel advertising campaign.
- **Visitor spending:** Total dollars spent by out-of-state visitors as a result of the Pure Michigan summer travel advertising campaign.
- **Travel jobs:** The total jobs associated with the direct incremental visitor spending as a result of the Pure Michigan summer travel advertising campaign. (MEDC 2019a)

Benchmark State Profiles

Alabama

Overview

There are two principle departments responsible for economic development in Alabama: the Alabama Department of Commerce, which acts as the lead agency for business attraction, retention, and growth efforts, and the Alabama Department of Economic and Community Affairs (ADECA), the lead agency for community development. Separate from these two agencies is the Alabama Tourism Department, which promotes the state's image and tourism industry.

Alabama's economic development agencies' primary tools include tax incentives and several business and community development services. Of these tools, the most notable is the state's industrial training program, which provides employer-tailored training and is used extensively. Alabama highlights its recent success in the formation of its auto industry and continued growth of its aerospace programs as results of its extensive use of their innovative industrial training program (Alabama Department of Commerce 2018c).

Strategic Focus

The mission of the Alabama Department of Commerce is to "accelerate business growth in Alabama." The vision, promoted under the "Made in Alabama" brand, includes the identification of targeted business sectors on which to apply economic development tools and tactics. Their core focus rests on three economic development drivers:

- **Recruitment:** Programs that focus on the attraction of new business and industry
- **Retention:** Programs that focus on the retention and expansion of existing business and industry
- **Renewal:** Programs that focus on job creation through innovation, entrepreneurship, research and development, and commercialization (Alabama Department of Commerce 2018a)

The ADECA, Alabama's other state-level agency responsible for economic development, has a mission to "build better Alabama communities." The organization's vision is to be a "one-stop center for grants, funding for projects, and initiatives to make Alabama citizens' lives and their communities better." Their core focus is to provide planning, economic development, employment, training, and community services" (ADECA 2015).

In addition, while some states, like Michigan, house their tourism programs within their economic development agencies, Alabama has a separate agency that handles the industry. The Alabama Tourism Department is entitled with "exclusive power and authority to plan and conduct all state programs of information and publicity designed to attract tourists to the state of Alabama" (Ivey 2018). Its core focus is to promote travel to and throughout the state through advertising, marketing, trade shows, grants, and other activities.

Audience Segmentation

Alabama segments its audience (i.e., potential clients and stakeholders) based on industry sector. The state has identified seven business sectors along with six foundational targets to focus their economic development resources, including:

- Aerospace/aviation
- Agricultural products/food production
- Automotive
- Bioscience
- Chemicals
- Forestry products
- Metal and advanced materials

The foundational targets are sectors that are intrinsic to the core competencies of a wide range of industries and provide operational processes and services to other sectors Alabama may target. These foundational targets include corporate operations, cybersecurity, data centers, distribution/logistics, information technology, and research and development. Alabama determined that these foundational targets are embedded in various other industries and play a critical role in the recruitment of those other sectors that rely on the infrastructure the targets provide (Alabama Department of Commerce 2018a). This method of layering business sectors with foundational targets is a unique approach to developing a business engagement strategy, as compared to other states.

Alabama also targets certain key countries for investment opportunities in the state and exports for Alabama companies. Those countries include South Korea, Germany, Japan, Canada, Spain, and China. Alabama has state staff within the Department of Commerce that explore these opportunities (Alabama Department of Commerce 2018c).

Tactics

Tax incentives are the primary tool that Alabama utilizes for business attraction and retention along with employer-tailored job training through their flagship industrial job training program. These programs are summarized below.

Tax Incentives

Jobs Act Incentives

The Jobs Act Incentives program offers incentives for job creation and capital investment. In order to qualify, eligible businesses must create net new jobs. All other businesses with a qualifying business activity must create a minimum of 50 jobs. If approved by the governor, companies may claim the following incentives:

- **Jobs Credit:** Annual cash refund of up to 3 percent of the previous year's gross payroll for new eligible employees. The annual refund may be claimed for up to ten years.

- **Investment Credit:** Tax credit of up to 1.5 percent of qualified capital investment. The credit may be claimed for up to ten years and may be applied against Alabama income tax and/or utility tax liability. Unused credits may be carried forward for five years. If approved by the governor, the first three years of the credit may be transferred to another Alabama taxpayer for at least 85 percent or more of face value.

Port Credit

The discretionary Port Credit program offers a one-time tax credit for increased use of Alabama public ports. Shippers must be engaged in manufacturing, warehousing, or distribution of goods. The credit is up to $50 per twenty-foot equivalent unit (TEU), three dollars per net ton, or four cents per net kilogram.[4] The credit may be taken against Alabama income tax liability and can be carried forward for five years. New distribution or warehouse shippers investing at least $20 million and creating at least 75 net new jobs are eligible to receive up to $100 per TEU over a three-year period if entering into a project agreement with the state.

Growing Alabama Credit

The Growing Alabama Credit applies to eligible companies investing in local EDOs. These businesses qualify for a corporate income tax credit equal to their contribution capped at 50 percent of tax liability in that year.

Full Employment Act of 2011

Under the Full Employment Act of 2011, businesses with 50 or fewer employees may receive a one-time, nonrefundable, nontransferable tax credit equal to $1,000 for every new job created earning over ten dollars per hour.

Enterprise Zone Credit/Exemption

Businesses that locate in an Alabama Enterprise Zone may receive a tax credit or tax exemption for new job creation (up to $2,500 per permanent job), investment tax credits, training grants of up to $1,000 per new employee, and an exemption of sales and use tax on purchases of construction materials. Employers with existing facilities in an Enterprise Zone that create at least five new jobs may also receive incentives.

Investment Funds

Education Trust Fund

The Education Trust Fund (ETF) is Alabama's largest operating fund, with a value of around $6.6 billion (Ivey 2018). Revenues from the fund are used for the support, maintenance, and development of public education in Alabama; debt service and capital improvements relating to educational facilities; and other educational functions. The flagship workforce development program for the state, the Alabama Industrial Development Training Program (AIDT) is paid through the ETF.

Additional Economic Development Funds

- **Competitive Fund:** ADECA annually awards CDBG money for the large-city, small-city, and county categories for community revitalization and infrastructure improvements. The small-city and county funds both have ceilings of $350,000. The large-city fund has a ceiling of $450,000.
- **Community Enhancement Fund:** This fund is available to all eligible communities to use for projects that address quality of life issues (e.g., community centers, recreational facilities, etc.).
- **Planning Fund:** This fund is available for all eligible communities to conduct planning activities to promote orderly growth, regional development, and revitalization efforts (e.g., downtown revitalization plans, regional development plans, etc.).

[4] TEU are typically used to measure a ship's cargo-carrying capacity.

- **Economic Development Fund:** This fund is available to all eligible communities for projects supporting the creation or retention of jobs.

Other Tactics

Industrial Training Program

The Alabama Department of Commerce highlights the AIDT as a critical tool in its overall business attraction and retention strategy. AIDT is housed under the Department of Commerce and is funded through the ETF in the amount of $56,949,479 budgeted for FY 2019. AIDT was established to recruit and train a skilled workforce to attract new industries to Alabama and facilitate the growth of existing businesses. The program provides job-specific pre-employment and on-the-job training and customized technical training programs at no cost to eligible employers. The program also offers leadership training for managers, trainee recruitment services, screening, safety assistance, and a variety of other training programs.

AIDT is a highly regarded program due to its close coordination with economic developers and its ability to tailor services to meet the needs of individual companies. When economic developers have a business growth or attraction project, they are able to work seamlessly with AIDT staff to provide training services that meet the needs of the client company. Companies value the program because it is able to effectively tailor services to meet their needs and deliver talented employees.

Industrial Development Program

The Department of Commerce is expected to spend $5,908,103 on their Industrial Development program, which is designed to attract new business and industry to Alabama. This program provides assistance in the expansion of existing industries within the state by providing venture capital for small technology businesses by using credit against the premium tax liability of insurance companies (Ivey 2018).

Organizational Structure and Staffing

Administrative Structure

In Alabama, there are two primary state-level departments responsible for the implementation of economic development policies: the Alabama Department of Commerce and the Alabama Department of Economic and Community Affairs.

Alabama Department of Commerce

The Department of Commerce is a state economic development agency that emphasizes the expansion of existing state industries and international trade relations in addition to business attraction. The agency's high-level administrative structure and full-time equivalent staffing is summarized below.

EXHIBIT 1. Alabama Department of Commerce Structure and Services

Division	FTEs	Description
Executive Office	7	Ensures the five priorities of the department are fulfilled: recruitment and expansion activity, export opportunities, workforce development, small-business opportunities, and avenues for job creation in the film and entertainment industry.
Business Development	9	Markets Alabama and identifies companies that may have expansion projects in the region over the next three to five years and supports the expansion and retention of existing businesses. The division coordinates efforts with local economic development agencies.
Workforce Development	61	Oversees the state's federally funded workforce development system. Also houses the AIDT program.
International Trade	4	Helps companies establish working relationships and connections to facilitate exportation and increase business growth opportunities in Alabama.
Small Business Advocacy	1	Fosters the growth of Alabama's small businesses by providing information to businesses, facilitating partnerships, and coordinating efforts with key small-business entities, such as the SBDC locations at universities.
Alabama Film Office	4	Recruits film, television, and entertainment production to Alabama and manages an incentive program as a film attraction tool.
Commerce Information Services	3	Gathers and utilizes actionable economic development data to assist businesses and other economic development stakeholders.
Administrative Technology	7	Provides administrative support for the department, including information technology and human resources services.

Source: Ivey 2018

Alabama Department of Economic and Community Affairs

The ADECA is another state department that implements economic development programs, but it covers a broader range of state and federal programs than the Department of Commerce. In addition to funding economic development projects, it also covers infrastructure improvements, job training, energy conservation, law enforcement, traffic safety, recreation development, assistance to low-income families, and protection of water resources. The agency's high-level administrative structure is summarized below.

EXHIBIT 2. ADECA Structure and Services

Division	Description
Skills Enhancement and Employment Opportunities	Provides vocational skills training; assessment; job search assistance; and private-sector, on-the-job training authorized under federal workforce development funding.
Community and Economic Development	Serves as the lead division in the development and management of programs that will support community and economic development and ameliorate the causes of poverty.
Law Enforcement and Traffic Safety	Develops, through effective planning, programs as mandated by federal laws and guidelines; develops and awards grants to projects approved by the Governor's Advisory Council on Juvenile Justice and Delinquency Prevention, the Bureau of Justice, Victims of Crime Act, Anti-Drug Abuse Act, National Highway Traffic Safety Administration, and family violence programs; and administers funds and monitors active grants for compliance.

Division	Description
Energy	Provides leadership and assistance to Alabama residents and organizations through the development of science and technology and the management of energy and coastal resources for economic prosperity.
Surplus Property	Screens all property declared excess within Alabama and other property made available by the federal government through military bases and Veterans Affairs hospitals. Makes this property available at a small service charge to public agencies and certain nonprofits.
Office of Water Resources	Provides for the planning, coordination, development, and management of the state's water resources.

Source: Ivey 2018

Alabama Tourism Department

Alabama's state image is promoted by a department that is separate from their economic development agencies. This department promotes Alabama as a travel and tourism destination through national advertising and public relations.

Resource Allocation

There is a total of 96 employees in the Alabama Department of Commerce budgeted for 2018 (Ivey 2018). A team of nine individuals promotes business development efforts and a team of four individuals promotes international trade efforts. The business team conducts business marketing and supports Alabama company expansion; the international trade team's activities include trade missions, trade shows, and connection of Alabama's exporters to international buyers. The department also sponsors and supports a variety of export development activities for other Alabama organizations.

There is a total of 174 employees in the ADECA budgeted for 2018 (Ivey 2018). Employees who work in the Community and Economic Development Division implement community development programs, such as the CDBG program, that are in line with the ADECA's community vitality efforts.

There is a total of 70 employees in the Alabama Tourism Department. These employees conduct public relations, marketing and communications, and group and international travel, as well as support the welcome centers throughout the state, among other activities.

Funding

Tax incentives are the most prolific economic development tool used by Alabama's economic development team followed by job training dollars through their AIDT program. The use of job training as a business attraction and retention tool to this extent is unusual compared with other states, like Michigan.

EXHIBIT 3. Alabama Economic Development Funding

Item	FY 2017	FY 2018	FY 2019
Business Investment			
Entrepreneurship and Innovation	Included elsewhere	Included elsewhere	Included elsewhere
Access to Capital	Included elsewhere	Included elsewhere	Included elsewhere
Business Development Incentives	$55,124,479	$56,699,479	$56,949,479
Business Development Services	$6,513,352	$6,565,055	$6,317,639
International Trade	Included elsewhere	Included elsewhere	Included elsewhere
Total Business Investment	**$61,637,831**	**$63,264,534**	**$63,267,118**
Community Vitality			
Community Development Incentives	Included elsewhere	Included elsewhere	Included elsewhere
Community Development Services	Included elsewhere	Included elsewhere	Included elsewhere
Total Community Vitality	**$59,556,979**	**$76,346,659**	**$64,136,849**
Image			
Travel and Tourism	Included elsewhere	Included elsewhere	Included elsewhere
Business Marketing	Included elsewhere	Included elsewhere	Included elsewhere
Public Relations	Included elsewhere	Included elsewhere	Included elsewhere
Total Image	**$17,088,444**	**$21,565,849**	**$20,250,000**
Administrative Operations			
Total Administrative Operations	**$20,840,806**	**$24,552,796**	**$23,540842**
Arts and Film			
Total Arts and Film	N/A	N/A	N/A
Total Economic Development Spending	**$159,124,060**	**$185,729,838**	**$171,194,809**

Source: Analysis completed by PSC.

Exact costs for Alabama's tax incentives were unavailable and are not included in the appropriation funding listed above; however, estimates for general tax incentives, as well as the specific entertainment industry incentive program, are included in Exhibits 4 and 5.[5] The necessity for estimates rather than specific amounts is due to the fact that Alabama does not have a consolidated budget, but rather a number of separate budgets and trust funds that receive revenues from separate sources.

EXHIBIT 4. Cost of Tax Incentives

2011	2012	2013
$181,996,316	$456,921,658	$271,000,000

Source: Dove and Smith 2016

[5] Despite exact numbers remaining unavailable, 85 percent of Alabama's revenue is already earmarked for a particular purpose—the largest percentage of earmarking as compared to the rest of the country (Dove and Smith 2016).

EXHIBIT 5. Entertainment Industry Incentive Program

2013	2014	2015
$9,299,172	$12,262,947	$8,593,999

Source: Murray and Bruce 2017

Evaluation

The Alabama Department of Commerce highlighted the following as key metrics the state achieved in 2017:

- The state's 300 economic development projects generated 15,465 new and future jobs, along with new capital investment totaling $4.4 billion. Both totals exceed those for 2016.
- The auto industry was a prime driver of economic growth in 2017. Alabama's four global automakers—Mercedes-Benz, Honda, Hyundai, and Toyota—together announced additional investments topping $500 million in their facilities across the state.
- Mercedes plans to open a global logistics center in Bibb County, which will create around 500 jobs in a rural area. The year also brought solid growth in Alabama automotive supply chain (Alabama Department of Commerce 2018c).
- Alabama has received criticism for lack of transparency in its budget and financing; however, it is making progress in improving transparency and evaluating the cost and effectiveness of their tax incentives. The state has adopted a plan for regular evaluation of tax incentives that include quantitative and qualitative evaluations and have launched this effort by hiring an independent contractor to evaluate their entertainment industry incentive program (Pew Charitable Trusts 2017a).

Georgia

Overview

There are two state-level departments that conduct economic development efforts in Georgia: the Georgia Department of Economic Development (GDEcD), which is the lead agency for business investment and image, and the Department of Community Affairs (DCA), which acts as the lead agency for community development. Georgia uses a variety of tax credits as business incentives, most notably their film tax credits, which are the most generous in the nation. Despite the high cost of the film credits, the state takes pride in its arts and film efforts as an integral part of state business attraction and tourism efforts. Overall, Georgia's economic development efforts are consistently highly regarded nationally and may be worthy of a closer look for adopting best practices in Michigan.

Strategic Focus

The GDEcD's vision is to "maintain Georgia's status as a leader in the global marketplace" and its core purpose is to "market Georgia to the world by encouraging business investment and trade, attracting tourists, and promoting the state as a go-to location for film, music, digital entertainment, and the arts" (GDEcD 2018).

The core areas of focus for the GDEcD are:

- Sales and marketing
- Mobilizing state resources for economic development
- Aligning workforce education and training
- Locating new markets for Georgia products
- Attracting tourists to Georgia

Sales and marketing efforts include promoting the state as a destination for arts and location for film, music, and digital entertainment projects. The second core area of focus, mobilizing state resources for economic development, includes attracting new business investment and encouraging the expansion of existing industry and small businesses. The third focus area, aligning workforce education and training, involves connecting state talent to in-demand jobs and providing job training tailored to meet the needs of growing companies. Locating new markets for Georgia products, the state's fourth focus area, includes a particular focus on investment and job growth for Georgia businesses. Finally, attracting tourists to Georgia includes focusing on the state's geography; history; culture; and key industries, such as arts, commerce, film, and tourism opportunities.

Alongside the GDEcD, the DCA's vision is to "build strong, vibrant communities," and its purpose is to "offer a variety of financial resources and technical assistance to help communities realize their vision of success and improve the lives of their citizens. These resources, when used effectively and in concert with each other, can drive major improvements in a community and lead to an improved quality of life" (DCA 2018).

The core areas of focus for the DCA's economic development efforts are:

- Utilizing state and federal community development funds
- Utilizing community development incentives

- Helping local governments create quality communities

The DCA utilizes state and federal community development funds to promote economic development projects, public buildings, roads, parks, and other projects the community has deemed important. This agency also uses community development incentives to encourage the private sector to invest and fill a gap that is important in promoting a community's vitality. Finally, the DCA helps local government create quality communities by providing technical assistance; capacity development; and best practice identification in areas such as planning, downtown development, volunteerism, resource management, and conservation.

Audience Segmentation

Georgia divides the market for its economic development efforts by industry sector, region, and international market. The state focuses on five key growth industries:

- Aerospace
- Energy technology
- Information technology
- Logistics
- Manufacturing

These industries were identified based on the state's competitive advantage and growth opportunities. These growth industries are identified in each of Georgia's 12 regions, to which state staff are dedicated to focus on economic development.

On a global scale, Georgia focuses on developing trade, investments, and tourism opportunities with 12 international markets located in Japan, Korea, China, Israel, Germany, United Kingdom, Canada, Mexico, Colombia, Peru, Chile, and Brazil, and each market has its own assigned economic development staff.

Tactics

Georgia's economic development tools are presented below organized into three categories: tax credits, investment funds, and other tactics.

Tax Credits

Job Tax Credit

New and expanding companies may earn Job Tax Credits for creating new jobs in Georgia. These credits can lower a company's corporate income tax liability and, in certain areas, can also reduce the company's payroll withholding obligations. The requirements and benefits depend on where the new jobs are located, with lower qualification requirements and higher benefits in Georgia's less-developed areas. Each year, all 159 Georgia counties are assigned to one of four development tiers based on the unemployment rate, per-capita income, and poverty rate.

Once a company has qualified to earn Job Tax Credits, it can earn a tax credit for each net new job it creates (and maintains) during the following five years. These tax credits are applied to Georgia corporate income taxes and can be carried forward for up to ten years. Also, excess credits may be applied to state payroll withholding liability. Tier 1 counties (less developed) offer $4,000 per job per year for five years, for a minimum of two jobs. Tier 4 counties (the most developed counties), offer up to $1,250 per job per year for five years, for a minimum of 25 new jobs created. If a company creates 50 jobs in a Tier 1 county that offers a $4,000 credit, the company will receive $1 million in tax credits over five years to reduce or eliminate Georgia corporate income tax (50 jobs x $4,000 x 5 years = $1 million) (GDEcD n.d.b).

Film Tax Credits

Georgia's film program offers some of the most favorable terms in the country for attracting movie productions. As the provision is currently structured, Georgia offers a one-time tax credit of 20 percent on base investments, based on a minimum investment of $500,000 on qualified expenditures. Base investments are qualifying expenditures made by qualified production companies involved in feature films, music videos, television (movies/series), commercials, interactive entertainment, and animated projects. An additional 10 percent credit is available for productions that include an embedded animated Georgia logo. Credits can be transferred or sold, and unused credits can be carried forward for five years.

Georgia has provided hundreds of millions of dollars in film tax credits but has not rigorously studied the results of this program. From 2009 through 2014, film tax credits cost the state more than $900 million. The costs have increased in recent years, and in FY 2017, the program was estimated to cost $800 million (Governor's Office of Planning and Budget 2018).

Mega Project Tax Credit

The Mega Project Tax Credit is available for companies that hire at least 1,800 net new FTEs and either invest a minimum of $450 million or have a minimum annual payroll of $150 million and pay an average wage above specified minimums or show high growth potential. Companies that qualify may claim a $5,250 tax credit per job per year for the first five years of each net new job position.

Quality Jobs Tax Credit

Companies may receive Quality Jobs Tax Credits (QJTC) if, during a 24-month period, they create and maintain at least 50 net new jobs that pay at least 110 percent of the county's average wage. The QJTC value ranges from $2,500 to $5,000 per job per year for up to five years.

Additional Tax Credits and Exemptions

- **Research and Development Tax Credit:** Georgia companies performing qualified research and development activities in the state may be eligible for tax credits if they or their headquarters are engaged in strategic industries, such as manufacturing, biomedical, or telecommunications.
- **Premium Tax Credits:** Georgia offers a tax credit against the annual premium tax applied to insurance companies in the state. The tax credit is earned based on new job creation in Georgia.
- **Parolee Jobs Tax Credit:** Georgia offers a $2,500 per-person tax credit for hiring an individual granted parole within 12 months of his or her date of hire.
- **Sales and Use Tax Exemption:** Georgia offers sales and use tax exemptions on a wide range of expenditures that manufacturing facilities must make for their operations.
- **Angel Investor Tax Credit:** Georgia offers an income tax credit for qualified investors who invest in certain qualified businesses in Georgia, which is claimed two years after the investment is made. The credit is 35 percent of the investment with an individual investor cap of $50,000 per year.

Investment Funds

OneGeorgia Equity Fund

The purpose of the OneGeorgia Equity Fund is to provide a program of financial assistance that includes grants, loans, and any other forms of assistance to finance activities that will assist applicants in promoting the health, welfare, safety, and economic security of Georgia residents through the development and retention of employment opportunities in areas of greater need, as defined by the Georgia Business Expansion and Support Act of 1994. The OneGeorgia Equity Fund is designed as a flexible community and economic development tool that provides funding for projects relating to technology; public water and sewer infrastructure; road, rail, and airport improvements; capacity building for industrial/business sites; workforce; and tourism. The OneGeorgia Authority, in partnership with the DCA, administers the fund, and it is used to fund projects that increase capacity and enhance the competitiveness of rural Georgia. Award limits are set at $1 million per project.

Eligible recipients of grant and loan funds include general-purpose local governments (municipalities and counties), local government authorities, and joint or multicounty development authorities in rural counties suffering from high poverty rates. Local governments may then distribute the funds to for-profit or nonprofit entities. Equity from this fund is a type of last-resort funding, when no other public or private funding is available.

Georgia Rural Investment Fund, LLC

Georgia established a fund that invests in small businesses with principal operations located in rural areas. Eligible investments include businesses engaged in agriculture, manufacturing, healthcare, technology, transportation, or other industries the state determines will be beneficial to the rural area and the economic growth of Georgia.

Other Tactics

State Small Business Credit Initiative

Georgia's State Small Business Credit Initiative (SSBCI) is designed for small-business lending through banks offering 50 percent guarantees on loans up to $400,000 and a loan participation program using SSBCI funds to purchase up to 25 percent of a loan originated by a participating lender to small-business borrowers.

Centers of Innovation

Centers of Innovation (COI), housed within the GDEcD, provide technical industry expertise and facilitate research collaborations and business partnerships to help key state industries accelerate their growth. Five individual centers operate statewide, with a focus on the state's core industries: aerospace, energy technology, information technology, logistics, and manufacturing. COIs are the leading resource for facilitating business innovation.

Organizational Structure and Staffing

Administrative Structure

Allocation of resources, staffing, and organizational structure of the two state-level departments that conduct economic development efforts in Georgia, the GDEcD and the DCA, are described in the detailed tables below.

Georgia Department of Economic Development

The GDEcD is focused on attracting new business investment, encouraging the expansion of existing industry, aligning workforce training with in-demand jobs, and connecting Georgia products to new markets. There are 195 FTE staff serving in this department. The GDEcD implements its vision through the following administrative entities (GDEcD n.d.a).

EXHIBIT 1. GDEcD Structure and Services

Division	FTEs	Description
Global Commerce	12	Assists businesses interested in growing or locating in the state. The agency provides services to support this mission, such as site locating, employee training, market research, and connecting businesses with local communities' business development programs. Global Commerce also includes the Innovation and Technology Office, which is aimed at attracting high-technology and biotech companies to locate and grow in Georgia.
International Trade	22	Promotes the state as an ideal source for quality products and services by matching international buyers with Georgia suppliers. The program also works to develop international markets for Georgia products through business and trade missions, foreign advertising, and a network of overseas offices and representatives, as well as by providing technical and educational assistance to businesses.
Small and Minority Business Development	N/A	Assists entrepreneurs, startups, and small and minority-owned businesses by providing technical assistance on direction, planning, and business needs. The program also identifies potential markets and suppliers and provides assistance to local communities to help build enabling business environments in support of small business.
Film, Music, and Digital Entertainment Office	6	Develops and promotes the state's film, television, commercial and music video production, and music recording industries. The office works to attract new entertainment companies and expand existing companies, as well as to expand the entertainment workforce.
Tourism	12	Works with local and regional tourism organizations in the development of tourism products and promotions. Through its network of regional representatives, it also assists the state's communities and attractions in bringing potential travelers to their areas.
Georgia Council for the Arts	5	Works with communities, local government, and arts organizations to educate and encourage use of arts as a tool for economic development and to preserve cultural heritage and create increased access to high-quality arts experiences.
Workforce	N/A	Works to ensure that education and training in Georgia are geared toward in-demand jobs and also administers Workforce Innovation and Opportunity Act funds under the leadership of the State Workforce Development Board. In 2018, this division was moved to the Technical College System of Georgia.
Attached Agencies		
Georgia Ports Authority	N/A	Develops, maintains, and operates ocean and inland river ports within Georgia, including the Port of Savannah and Port of Brunswick.
Georgia World Congress Center Authority	N/A	Operates the Georgia World Congress Center and oversees Centennial Olympic Park and related facilities, which host sporting and entertainment events.

Source: Analysis completed by PSC.

Department of Community Affairs

The DCA is Georgia's primary community development agency and partners with the GDEcD in bringing jobs to Georgia by administering various financial incentive programs that further the state's goals of economic growth and job creation. The agency also serves as the state's lead agency in housing finance and development; operates a host of state and federal grant programs; and provides comprehensive planning, technical, and research assistance to local governments (DCA 2018). This agency handles community development functions similar to the MEDC but also handles public housing functions that would be covered by the Michigan State Housing Development Authority. There are 388 total FTEs serving in this department.

EXHIBIT 2. Georgia DCA Structure and Services

Division	Description
Community and Economic Development	Assists Georgia communities in achieving growth and development goals. Offers economic development and redevelopment incentives and tools designed to help promote growth and job creation throughout the state. Additionally, comprehensive planning assistance is aimed at helping communities address issues of growth, development, and quality of life through implementation of recognized best practices for planning and growth management.
Safe and Affordable Housing	Supports Georgia communities in addressing housing needs by offering funding and expertise to communities, organizations, and individuals. The agency provides financing for affordable housing development, mortgages, and down payment loans for moderate-income, first-time homebuyers and financing for housing for people with special needs.
Local Government Assistance	Involves partnerships with local, regional, state, and federal organizations and agencies and facilitates community issue identification, goal development, and implementation of best practices. Regional field teams assist customers with project development and technical assistance needs while also connecting them to housing and community and economic development programs. Administers local government surveys related to topics including finance, solid waste, and wages and salaries. It also publishes and maintains information and data about local governments and prepares local government fiscal notes for the general assembly.
Attached Agencies	
Georgia Housing and Finance Authority	Created to provide financing and financial assistance for affordable housing statewide. The authority's programs are designed to provide low- and moderate-income earners safe and affordable rental housing, aid in maintaining housing for homeownership, and help abate homelessness in the state.
Georgia Environmental Finance Authority	Provides loans for water, sewer, and solid waste infrastructure; manages energy-efficiency and renewable energy programs; oversees land conservation projects; and manages and monitors state-owned fuel storage tanks. Provides grants and loans to promote rural economic development and job creation in Georgia. Eligible local governments and local development authorities are awarded financial assistance to help ensure that rural communities have the infrastructure required to attract growth and to respond to the needs of the private sector.
State Housing Trust Fund for the Homeless Commission	Provides funds to support homeless assistance programs operated by local governments and nonprofit organizations throughout the state.

Source: Analysis completed by PSC.

Key Partner Organizations

In addition to the two state-level agencies responsible for Georgia's economic development efforts, the state also highlights two additional key partnerships:

- **Technical College System of Georgia:** Supervises the 22 technical colleges, adult literacy, and federal workforce development programs for the state. It also implements the Quick Start program, which is a workforce training program that provides customized training, free of charge, to qualified new, expanding, and existing businesses. It is highlighted by economic developers as a key economic development tool and highly regarded nationally as a best practice.
- **Georgia Research Alliance:** Operates in a partnership among the state's universities, philanthropic organizations, government, and businesses to expand university research capacity and launch startup companies around inventions and new discoveries.

Resource Allocation

Georgia conducts business retention and expansion efforts as a regional effort through a team of 12 front-facing staff assigned to each of the 12 economic development regions in the state. These staff are known as project managers, are housed under the GDEcD, and are meant to be the single point of contact for businesses seeking services for economic development. These project managers are experts in connecting Georgia businesses to resources and incentives to grow their businesses and work closely with other agencies in state government as well as key local partners, such as chambers of commerce, utilities, and local governments, to identify services and resources tailored to meet the needs of individual businesses. They also make personal connections between key public- and private-sector partners to promote partnerships and collaboration.

Georgia has an international trade and investment team of 22 front-facing staff focused on 12 strategic markets connecting Georgia to the world. These international representatives assist Georgia companies in expanding their exports to new markets in Japan, Korea, China, Israel, Germany, United Kingdom, Canada, Mexico, Colombia, Peru, Chile, and Brazil and promote Georgia as a destination for international investment and tourism. Georgia has one or more state staff assigned to each market and dedicated to developing these international relationships.

The DCA is a larger agency than the GDEcD that handles other programs similar to those of various other Michigan departments, such as federal public housing. The agency has 388 employees, runs 65 programs, and manages more than $350 million in state and federal funding each year.

A team of 12 front-facing staff, known as DCA regional representatives, are the entry point to help navigate the agency's diverse community development programs and resources. The representatives are assigned to each of the state's 12 service delivery regions to carry out the state's community development initiatives and are available to evaluate a community's needs and options and then help access, organize, and manage the various types of assistance offered by the DCA. They can also access a network of private and local partners to bring additional assistance that complements the DCA's efforts.

When comparing Georgia to the state of Michigan, GDEcD and DCA efforts appear to share some similarities with the MEDC. They both have regional BD and CD teams with front-facing staff assigned to each region, though the MEDC calls these positions business development managers and Georgia calls them project managers. They also have international trade teams with staff dedicated to certain markets.

However, Georgia's international effort consolidates international trade and investment and works closely with the tourism team to focus on investment and tourism development. Efforts of this scale may be beyond the scope of the MEDC's international trade team.

Funding

The GDEcD and DCA received a total of $310,801,127 dollars ($33,887,015 and $276,914,112, respectively) in funding to carry out their missions. The GDEcD received a significant decline ($73,361,918) in federal funding for 2019 due to the transfer of the state's workforce development initiative to the Technical College System of Georgia (Deal 2018).

While the services covered by the GDEcD funding are equivalent to those offered by the MEDC, some of the DCA's efforts appear more closely aligned with those of the Michigan State Housing Development Authority. In comparison with the MEDC's scope of services, it is estimated that, in 2019, the GDEcD and DCA are predicted to spend $12,666,680 in administrative costs, though it should be noted that this amount includes public housing operations. Georgia is estimated to spend $83,497,223 on community vitality; $14,507,153 on business investment; $2,902,411 on arts and film; and $11,808,887 on the state's public image.

EXHIBIT 3. GDEcD Funding

	FY 2017	FY 2018	FY 2019
Administrative Operations			
Departmental Administration	$4,628,550	$4,683,930	$4,668,564
Arts and Film			
Film, Video, and Music	$1,118,845	$1,131,962	$1,131,701
Georgia Council for the Arts	$1,375,899	$535,145	$534,954
Georgia Council for the Arts—Special Project	$300,000	$1,235,756	$1,235,756
Total Arts and Film	**$2,794,744**	**$2,902,863**	**$2,902,411**
Business Investment			
International Relations and Trade	$0	$2,842,845	$2,842,845
Global Commerce	$11,264,286	$10,671,979	$10,673,620
Innovation and Technology	$1,542,296	$0	$0
Small and Minority Business Development	$976,342	$990,990	$990,688
Total Business Investment	**$13,782,924**	**$14,505,814**	**$14,507,153**
Image			
Tourism	$11,731,283	$11,860,652	$11,808,887
Agencies Not Focused on Economic Development (Transitioned out of GDEcD Before FY 2019)			
Governor's Office of Workforce Development	$73,361,918	$73,361,918	$0
Total GDEcD Funds	**$106,299,419**	**$107,315,177**	**$33,887,015**

Source: Analysis completed by PSC.

EXHIBIT 4. Georgia DCA Funding

	FY 2017	FY 2018	FY 2019
Community Vitality			
State Community Development Programs	$1,079,529	$1,218,815	$1,143,815
State Economic Development Programs	$27,044,480	$26,748,883	$26,748,883
Regional Services	$1,551,442	$1,574,613	$1,574,613
Coordinated Planning	$4,244,881	$4,267,283	$4,167,283
Federal Community and Economic Development Programs	$49,832,036	$49,862,629	$49,862,629
Total Community Vitality	**$83,752,368**	**$83,672,223**	**$83,497,223**
Administrative Operations			
Departmental Administration	$7,505,877	$8,055,798	$7,998,116
Total Administrative Operations	**$7,505,877**	**$8,055,798**	**$7,998,116**
Total DCA Funds	**$91,258,245**	**$91,728,021**	**$91,495,339**

Source: Analysis completed by PSC.

EXHIBIT 5. Georgia Economic Development Funding

	FY 2017	FY 2018	FY 2019
Total Economic Development Funding	**$197,557,664**	**$199,043,198**	**$125,382,354**

Source: Analysis completed by PSC.

Tax Incentives

Georgia's tax incentives are likely greater than the total amount of economic development funds appropriated for the GDEcD and DCA. Georgia's film tax credits are estimated to have cost the state just over $925 million in utilized credits from 2009 to 2014. For tax year 2013, the total value of the film tax credits claimed against personal and corporate tax liabilities was $228 million and was $257 million for tax year 2012, making it the largest state credit program (Small and Wheeler 2016). In recent years, the film credit grew even larger, with a cost of $800 million in 2017.

The table below provides some estimates from the last two years of Georgia's investment in major tax incentives based on analysis from Georgia State University.

EXHIBIT 6. Georgia Tax Incentives

Tax Credit	2016	2017
Film Tax Credit	$606 million	$800 million
Job Tax Credit	$87 million	$88 million
Quality Jobs Credit	$49 million	$56 million
Research Tax Credit	$28 million	$29 million

Source: Fiscal Research Center 2016

Evaluation

Georgia tracked the following metrics for FY 2017:

- **Centers of Innovation:** 1,016 COI engagements; $18 million in direct economic benefit from COI projects; $78 million in total investment from 70 COI-supported projects; 50 engagements with economic development partners across the state; 1,400 attendees
- **Film:** $2.7 billion in direct production spending in Georgia; 320 film and television productions; 92,100 jobs created; $4.6 billion total wages
- **Georgia Council for the Arts:** $37 billion creative industry revenue; 196 arts grants; $1.2 million awards in arts grants; 200,000 arts jobs
- **Global Commerce:** 30,309 new jobs; 377 new projects and expansion of current Georgia businesses; 86 international projects; $1.6 billion in foreign direct investment; 1,760 small businesses assisted
- **International Relations and Trade:** $35.6 billion in Georgia-based exports, 821 Georgia companies received customized export assistance, 253 export successes facilitated by the GDEcD
- **Tourism:** 105 million visitors; $60.8 billion in total tourism output; 450,200 jobs supported
- **Community and Economic Development:** 2,929 net new jobs
- **Community Investment:** 685 new businesses, spurring more than $400 million of private and public investment in 90 Georgia cities
- **Community Services:** 111 communities served

Some additional metrics relate to the state's tax credits. Notwithstanding the immediate revenue costs of the film tax credits, there are potential benefits in terms of employment, investment, and overall growth—not just for Georgia's film industry, but for the state economy in general. According to the GDEcD, hundreds of feature films, commercials, and television productions were shot in Georgia, and in fiscal year 2017, these productions were reported to have had a statewide economic impact of $9.5 billion.

Illinois

Overview

The Illinois Department of Commerce and Economic Opportunity (DCEO) is the lead agency for economic development in Illinois. The DCEO was created in 1979 by the Department of Commerce and Economic Opportunity Law to provide a wide range of programs and services to promote economic development in Illinois, including support for business development, small businesses and entrepreneurship, export assistance, community development, and film production. The DCEO operates through appropriations from the state legislature in addition to funding from federal sources. Unlike many other states, Illinois consolidates their economic development efforts into a single public agency.

Strategic Focus

The DCEO's mission is "to provide economic opportunities for businesses, entrepreneurs, and residents that improve the quality of life for all Illinoisans. The DCEO is focused on improving transparency and accountability, enhancing customer service, increasing Illinois' competitiveness, advancing minority empowerment, modernizing Illinois' workforce, and elevating the state's promotional efforts" (DCEO n.d.a).

The DCEO has established the following strategic goals to help it achieve its mission.

- Grow Illinois' economy
- Restore Illinois' global reputation
- Expand access to opportunities for minority and low-income communities
- Develop and retain talent to meet current and future employer needs
- Increase DCEO transparency, accountability, and operational performance

The DCEO focuses on economic inclusion through its offices of Community Assistance, Community Development, Urban Assistance, and Minority Economic Empowerment, which provide support to moderate- and lower-income parts of the state as well as minority entrepreneurs.

Audience Segmentation

Illinois, like many states, divides the market for its economic development efforts by industry sector, region, and international market.

The DCEO has identified the following six targeted industries for growth in Illinois:

- Advanced manufacturing
- Agribusiness and food processing
- Transportation, distribution, and logistics
- Life sciences and biotechnology
- Business and professional services
- Energy

The DCEO has also established a field presence by dividing the state into ten economic development regions with corresponding field offices. In addition, Illinois is focused on developing international trade and facilitating foreign investment, with a focus on Europe, Japan, China, Mexico, Canada, Israel, India, South Africa, and Brazil (DCEO n.d.b).

Tactics

The DCEO has a number of programs to support economic development. These include programs for business development incentives and tax assistance that support companies interested in expanding or relocating to Illinois, and export assistance for those interested in selling overseas. Other programs support international trade, entrepreneurs, workforce development, and community development assistance.

Business Development Incentives and Tax Assistance

Economic Development for a Growing Economy Tax Credit Program

Illinois' Economic Development for a Growing Economy (EDGE) tax credit program is the primary incentive for attracting new companies to Illinois. It provides annual corporate tax credits to businesses that support job creation. The nonrefundable income tax credit is equal to 50 percent of the income tax withholdings of new jobs created in the state or 75 percent if the business expansion project is located in an underserved area that meets certain state criteria (DCEO n.d.c). The program expired in April 2017, but the state legislature voted to reinstate it through 2022.

Enterprise Zone Program

The Illinois Enterprise Zone Program provides state and local tax incentives to projects in economically depressed areas of the state. Exemptions focus on purchases of building materials, manufacturing equipment, and utility infrastructure.

High Impact Business Program

The High Impact Business Program supports large-scale economic development projects through tax incentives, including sales tax incentives on building materials and equipment. To qualify, companies must make over $12 million in capital investments in operations and create or retain over 500 jobs.

Illinois Angel Investment Tax Credit Program

The Illinois Angel Investment Tax Credit Program supports investments in innovative new companies in Illinois. The program provides tax credits to investors in the amount equal to 25 percent of their investment in a qualified new business venture. The program sets $500,000 in tax credits for minority-owned businesses as well as $500,000 for counties with a population of less than 250,000.

Illinois Historic Preservation Tax Credit Program

This incentive provides a state income tax credit up to 25 percent of a project's qualified expenditures to owners of property in the River Edge Redevelopment Zones.

The River Edge Redevelopment Zone Program

This program provides incentives to projects in environmentally challenged areas adjacent to rivers in Illinois, including property tax abatements and sales tax exemptions on materials.

New Markets Development Program

The Illinois New Markets Development Program provides supplemental funding for investors that participate in the federal New Markets Tax Credit program.

Tax Increment Financing
Illinois law allows units of local governments to designate areas as TIF districts, which dedicate sales tax revenues and additional property tax revenues generated within the TIF for improvements to the TIF district.

Other Tactics

Illinois Growth and Innovation Fund
The Illinois Growth and Innovation Fund (ILGIF) is an impact investment fund used to attract, assist, and retain technology companies in Illinois. Managed by the Illinois treasurer, the ILGIF invests more than $700 million with venture and growth equity funds that invest in technology-enabled businesses and are either based in Illinois or possess a significant workforce in Illinois.

Illinois' State Trade and Export Promotion
The Illinois' State Trade and Export Promotion program provides Illinois' small businesses with both financial and technical assistance to increase their exports. The program supports expanded trade by providing financial assistance for group trade missions and individual foreign market sales missions, assisting companies in meeting foreign standards for product compliance, providing financial assistance to support website localization and translation, and offering export education.

Illinois Film Services Tax Credit
The Illinois Film Services Tax Credit provides producers with a 30 percent credit on qualified production expenditures.

Small-business Incentives
The DCEO manages a number of programs to provide capital to small businesses, including the Advancing the Development of Minority Entrepreneurship program, Advantage Illinois, and Illinois Finance Authority. These programs provide capital in the form of low-interest loans to small businesses across the state.

Community Development
The DCEO manages Community Development Block Grant funding for projects related to economic development, public infrastructure, housing rehabilitation, and disaster response.

Organizational Structure and Staffing

The DCEO's programs and services are delivered by programmatic units, which are currently organized into 11 offices (DCEO n.d.a). The 11 offices are described in Exhibit 1, including estimated FTE staff. As of 2016, there are 293 FTEs overall, with 104 of these focused on general administration (Illinois Auditor General n.d.).

EXHIBIT 1. DCEO Structure and Services

Division	FTEs	Description
Business Development	12	Administers programs and services designed to help companies interested in relocating or expanding to Illinois and serves as a "one-stop shop" for businesses by connecting them to local government partners, nonprofits, academic institutions, and utilities. The office also administers a portfolio of tax incentives, grants, and programs to help companies develop, redevelop, expand, locate, and relocate in Illinois.

Division	FTEs	Description
Community Assistance	27	Helps low-income residents manage their home energy costs, and manages the Low Income Home Energy Assistance Program, which provides supplemental funding to eligible low-income families to assist them in paying their utility bills.
Community Development	12	Focuses on providing Illinois communities with significant low- to moderate-income populations with programs for economic, infrastructure, and community development. This office administers the federal CDBG program as well as disaster recovery and housing rehabilitation assistance.
Employment and Training	52	Supports workforce development in Illinois. The office administers the federal government's national job training program—the Workforce Innovation and Opportunity Act—and provides oversight and administration for a statewide workforce system of 22 Local Workforce Innovation Areas throughout Illinois.
Entrepreneurship, Innovation, and Technology	22	Provides small businesses and startups with concierge services, technical assistance, training, information, advocacy, and access to other critical resources. The office operates SBDCs across the state, where entrepreneurs can go for free business planning and financial analysis consulting, access to business capital, market research assistance, development of business growth strategies, and assistance with expanding into new markets. Through SBDC International Trade Centers, the office also provides advice to companies interested in exporting to foreign markets.
Film	5	Works to increase the number of productions filmed in Illinois, promoting Illinois as a center for film, television, commercials, cable, and multimedia. This office recruits new businesses and creates jobs through the administration of the state's Film Tax Credit Program.
Regional Economic Development	14	Comprised of field staff deployed in each of the state's ten economic development regions. These local DCEO representatives live and work in the communities they serve and are charged with facilitating economic development efforts in their regions in addition to providing communities with direct access to key initiatives.
Tourism	12	Administers programs and services designed to market Illinois as a tourism destination to increase domestic and international visitation to the state. The office partners with 40 certified Convention and Visitor Bureaus throughout the state to advertise Illinois' assets.
Trade and Investment	12	Provides export assistance to companies interested in increasing their business overseas through a network of trade specialists located in Chicago as well as the international offices listed below.
Urban Assistance	N/A	Was formed within the DCEO in November 2009 to create and implement policies designed to address the pressing economic needs of residents, businesses, and stakeholders in the state's urban areas. The Office of Urban Assistance oversees programs such as the Employment Opportunities Grant Program, the Urban Weatherization Initiative, and the Illinois Fresh Food Fund.
Minority Economic Empowerment	N/A	Focuses on promoting opportunities for all minority communities across the state through targeted programs, resources, and advocates. The office manages the Advancing the Development of Minority Entrepreneurship program.

Source: Analysis completed by PSC.

Two other offices, the Office of Coal Development (two FTEs) and the Office of Energy and Recycling (19 FTEs), were suspended in 2015.

The DCEO's regional field offices provide front-line services to all areas of the state. These offices are located in Springfield, Effingham, Peoria, Canton, Lisle, Chicago, Rockford, Viola, Marion, Galesburg, and Quincy.

In addition to the offices located in Illinois, the DCEO also has established international offices staffed with DCEO trade representatives in Brussels, Tokyo, Hong Kong, Mexico City, São Paolo, Toronto, Shanghai, Jerusalem, New Delhi, and Johannesburg. These trade representatives support Illinois exports to global markets, facilitate foreign investment, and market Illinois abroad (DCEO n.d.b).

Funding

In FY 2017 and FY 2018, the DCEO posted an overall budget of approximately $1.9 billion and $1.8 billion, respectively. When funding for energy assistance, workforce training, and infrastructure investment are removed, the economic development budget was approximately $516 million and $532 million in FY 2017 and FY 2018. The majority of this funding is sourced from general funds, special state funds, and federal funding sources (DCEO n.d.e).

The business investment portion of Illinois' budget focuses heavily on support to small businesses, with the entrepreneurship, innovation, and access to capital line items being composed of programs targeted specially at Illinois small businesses. The community development incentives line item includes significant use of CDBG funds. The DCEO has a significant tourism budget, with multiple special state funds targeted to this industry, including the International Tourism Fund, Tourism Promotion Fund, and the Local Tourism Fund.

EXHIBIT 2. DCEO Funding

Item	FY 2017	FY 2018	FY 2019
Business Investment			
Entrepreneurship and Innovation	$18,446,600	$19,674,000	$19,660,500
Access to Capital	$51,805,400	$51,110,200	$51,106,000
Business Development Incentives	$5,202,400	$18,362,700	$17,067,300
Business Development Services	$30,297,300	$17,620,700	$23,302,700
International Trade	$11,085,500	$8,928,100	$6,620,900
Total Business Investment	**$116,837,200**	**$115,695,700**	**$117,757,400**
Community Vitality			
Community Development Incentives	$164,144,000	$164,307,600	$164,190,000
Community Development Services	$951,300	$1,193,100	$1,202,700
Total Community Vitality	**$165,095,300**	**$165,500,700**	**$165,392,700**
Image			
Travel and Tourism	$67,567,900	$74,038,200	$63,560,900
Business Marketing	Included elsewhere	Included elsewhere	Included elsewhere
Public Relations	Included elsewhere	Included elsewhere	Included elsewhere
Total Image	**$67,567,900**	**$74,038,200**	**$63,560,900**
Administrative Operations			
Total Administrative Operations	Included elsewhere	Included elsewhere	Included elsewhere

Item	FY 2017	FY 2018	FY 2019
Arts and Film			
Total Arts and Film	$2,259,100	$2,618,900	$2,346,800
Total Economic Development Spending	**$351,759,500**	**$357,853,500**	**$349,057,800**

Source: Illinois Office of Management and Budget n.d.b.

Evaluation

The DCEO does not provide public reports on its performance to the public.

According to a study on incentives by the Pew Charitable Trust, the state's flagship incentive program, EDGE, issued more than $1.4 billion in tax credits between 2001 and 2016, creating an estimated 37,122 jobs during that time period. In 2015, Gov. Bruce Rauner suspended new approvals for companies to participate in the EDGE program out of concerns over the state budget, and a 2015 investigation by the *Chicago Tribune* found that the state was not able to show that the program had led to net job creation in the state. While the program was reinstated, there remain concerns about its effectiveness (Pew Charitable Trusts 2016).

Indiana

Overview

The Indiana Economic Development Corporation (IEDC), modelled off of the MEDC by Gov. Mitch Daniels, is the state entity with primary economic development responsibility in Indiana. It was established in 2005 and replaced the former Department of Commerce. The IEDC is a public-private partnership governed by a 12-member board chaired by the governor. It is not a state agency, but an "independent instrumentality exercising essential public functions" (IEDC 2014).

While most state-level economic development functions are incorporated into the IEDC, there are a handful that fall under the Lieutenant Governor's Office. These include marketing for tourism, film development, and the Community Development Block Grant.

In some ways, Indiana has taken a fiscally conservative approach to economic development. It is very transparent with respect to incentives, publicly reporting on each project every year. These reports show that tax credits allocated for retaining jobs are rarely used and must be approved by the legislature, but at the same time, Indiana has still made some substantial investments. In 2006, for example, the state used a portion of the proceeds from leasing the Indiana Toll Road to capitalize a $500 million investment fund. More recently, the state dedicated the proceeds from a state tax amnesty ($126 million) to provide grants in support of the Regional Cities Initiative.

Strategic Focus

The IEDC's vision is "to be the most unique, most advanced, and most accomplished economic development organization in America" (IEDC 2018). The organization's core purpose is "to create opportunity for all Hoosiers to earn a good living and prosper in a diverse economic environment that encourages growth, creates and retains the jobs of today, and attracts and invests in the jobs of tomorrow" (IEDC 2018).

The IEDC's core focus areas are:

- Connectivity
- Economic diversification
- Attraction and expansion
- Innovation and entrepreneurship
- 21st-century workforce

Connectivity is defined broadly and includes increasing broadband access, completing major highway projects, supporting nonstop international flights to Indiana cities, planning for a new port, improving hiking and biking trails, and improving rail service. The IEDC also includes recent marketing efforts in the Northeast United States as a connectivity activity (IEDC March 2018). With respect to diversifying the economy, the IEDC focuses on advanced manufacturing, agbiosciences, and logistics, as well as aerospace, defense, life sciences, and technology.

Innovation and entrepreneurship activity include investment funds supporting early-stage businesses, support services for small businesses, and tax credits for venture capital investment. While developing a "21st-century skilled and ready workforce" is a key priority of Indiana's governor and is listed as a core focus area for the IEDC, responsibility for workforce development is largely outside the agency. State policies aimed at meeting this goal include financial aid and supportive services for adult students; promoting middle-skill training and occupations to middle-school and high-school students; and encouraging partnerships between industry, the K–12 education system, labor organizations, and postsecondary, vocational, and technical schools (Skills2Compete Indiana 2012). The governor has also created a workforce cabinet composed of 21 members tasked with aligning the state's workforce programs. The IEDC does have some workforce development responsibility, however. The Regional Cities Initiative discussed in the following section has a goal of making Indiana more attractive to talented workers, and the IEDC's Skills Enhancement Fund also supports workforce development.

Audience Segmentation

The IEDC divides the state into six regions supported by regional offices: North Central, Northeast, Southeast, Central, Northwest, and Southwest. The IEDC board has subcommittees focusing on entrepreneurship and regional economic development. The agency also focuses on:

- Advanced manufacturing
- Logistics
- Agbiosciences

Indiana views these industries as strengths of the state that can provide a competitive advantage. Indiana is also looking to aerospace, defense, life sciences, and technology as future growth industries the state can leverage. The agency is also focused on reaching growth-oriented markets across the world that can accelerate the growth of Indiana's businesses.

Tactics

The IEDC's economic development tools are presented below organized into three categories: tax credits, investment funds, and other tactics.

Tax Credits

Economic Development for a Growing Economy Tax Credit

The EDGE Tax Credit, used to attract new investment, is the IEDC's most important incentive, representing 80 percent of the economic development tax credits Indiana awards. It is similar to the Michigan Economic Growth Authority tax credit and is offset against the state income tax withholding of new employees. Companies can claim credits for up to ten years, with credits not exceeding 100 percent of new withholdings. In FY 2019, EDGE credits are expected to cost $86 million, and the cost of these credits has risen by approximately $10 million per year.

Indiana also has EDGE-R credits, which are used to retain existing jobs. The state tightly controls the job retention credits, since these have a more direct budgetary impact, and approves EDGE-R credits sparingly.[6] In addition, the Indiana State Budget Committee must approve all EDGE-R credits, helping to ensure tight control over these credits (Orr 2017). Between 2005 and 2015, the state only offered EDGE-R credits to 11 companies while it offered EDGE credits to 1,467.

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[6] Job retention credits have a more direct budgetary impact because they forgo revenue the state is already receiving. Job attraction credits are forgoing revenue the state has not yet received and potentially will not receive in the absence of the credits.

Hoosier Business Investment Credit

The Hoosier Business Investment Tax Credit is Indiana's second largest economic development tax credit, projected to cost $12.5 million in FY 2019. The nonrefundable corporate and individual income tax credit is equal to up to 10 percent of the qualified investment, and businesses can carry the credit forward for up to nine years. Eligibility requirements include creating new, permanent, FTE jobs that pay at least 150 percent of the hourly minimum wage.

Community Revitalization Enhancement District Tax Credit

The Community Revitalization Enhancement District (CRED) Tax Credit provides an incentive for businesses to invest in this type of district, with the tax credit equal to 25 percent of the eligible investment. Eligible investments can include acquisition costs, construction management and demolition costs, and environmental costs. The CRED Tax Credit is closely related to the Industrial Recovery Tax Credit, also known as the DINO tax credit, which provides an incentive to invest in former industrial facilities that require significant rehabilitation (Fox 2018). Combined, these credits have a projected cost of $2.3 million in FY 2019.

Headquarters Relocation Credit

The Headquarters Relocation Tax Credit covers up to 50 percent of the cost of relocating a corporate headquarters to Indiana. Taxpayers can carry the credit forward up to nine years. To qualify for the credit, companies must have at least 75 employees and $50 million of revenue in Indiana.

EXHIBIT 1. Indiana Economic Development Tax Credits, Combined Individual and Corporate Tax Totals

Item	Tax Year 2017	Tax Year 2018	Tax Year 2019
EDGE and EDGE-R Credit	$68,250,000	$76,950,000	$85,950,000
Hoosier Business Investment Credit	$12,987,000	$12,987,000	$7,872,000
CRED Credit	$5,253,000	$2,403,000	$2,603,000
Headquarters Relocation Credit	$550,000	$550,000	$550,000
Other Economic Development Credits	$9,723,000	$9,599,000	$10,154,000
Total Tax Credits	**$96,763,000**	**$102,489,000**	**$107,129,000**

Source: Holcomb 2016
Note: Totals for all years are estimates.

Investment Funds

Skills Enhancement Fund

The Skills Enhancement Fund is a $12 million fund that provides financial assistance to businesses to support worker training. It provides reimbursement for eligible training expenses over a two-year period. The fund typically reimburses 50 percent of the cost of training. This program has some similarities to Michigan's Skilled Trades Training Fund (STTF); however, Indiana's fund is administered by their economic development agency, while the STTF is administered by the Talent Investment Agency, and the Skills Enhancement Fund may have some additional criteria that Michigan could consider to improve program outcomes.

Indiana 21st Century Research and Technology Fund

The Indiana 21st Century Research and Technology Fund was created in 1999 to stimulate the process of diversifying the state's economy by developing and commercializing advanced technologies in Indiana

(IEDC n.d.). It is one of several programs in Indiana supporting the development of small businesses. The fund awards startup capital to accelerate growth and job creation through research and technology in early-stage Indiana companies, and spending for this program in FY 2019 is estimated to be $30 million (Devaraj and Hicks 2016).

Next Level Indiana Fund

In 2017, the Indiana General Assembly announced the creation of the Next Level Indiana Fund. This fund makes targeted investments in Indiana venture capital funds and in Indiana businesses. The fund has announced plans to invest $250 million over the next five years, and it replaces the Next Generation Trust Fund, which was originally capitalized with $500 million from the leasing of the Indiana Toll Road (Schoettle 2018).

The Next Level Indiana Fund was established as a charitable trust that operates separately from the State of Indiana. Therefore, the activity of this fund is not included in state budget totals. Investments are guided by an appointed board.

Other Tactics

Regional Cities Initiative

The Regional Cities Initiative is a significant placemaking effort aimed at making Indiana communities more competitive at attracting a skilled workforce and was designed to encourage collaboration between local communities and partners. Regions established regional development authorities that created development plans with projects aimed at making Indiana cities better places to live. Seven regions competed for grant funding, and Indiana used the $126 million raised from a tax amnesty to award $42 million grants to the North Central, Northeast, and Southwest Indiana regions. This initiative appears to have some similarities with MEDC's Redevelopment Ready Communities effort and there may be value in reviewing and sharing best practices with Indiana's program team.

Small-business Support

The IEDC wants Indiana to be a hub for small business. In addition to the investment funds noted above, the state looks to support coworking spaces, accelerators, and maker spaces. Indiana's Small Business Development Center provides no-cost business advising on strategic planning, financial clarity, industry research reports and prospect lists, business valuation, exporting advising, technical assistance, and market research. They have a procurement technical assistance center to help businesses identify and compete for government contracts and also have counselors that help small businesses apply for federal Small Business Innovation Research and Small Business Technology Transfer grants. Indiana also has a venture capital investment tax credit that investors can claim for providing qualified debt or equity capital to early-stage firms. The credit is equal to 20 percent of new investment up to $1 million.

Direct Flights

Indiana has been subsidizing direct flights to improve connections between Indiana cities and national and international destinations. Greater Fort Wayne was awarded a grant to support a direct flight to Newark Liberty International Airport, which serves the New York City metropolitan area. The state also invested $5.5 million across two years to secure a nonstop flight from Indianapolis to Paris (Kelly 2018). Direct flights are designed to make business travel to Indiana more convenient and are aimed at making out-of-state and international investors more likely to invest in the state.

Organizational Structure and Staffing

The IEDC has approximately 78 FTE staff. The structure of the IEDC is presented below along with estimates of how many employees work in each office. Tourism and Rural Development are run by the lieutenant governor and the staffing for these activities is also presented below.

EXHIBIT 2. IEDC Structure and Services

Division	FTEs	Description
IEDC		
Business Development	20	Responsible for attracting companies and investments to Indiana. The state has six regional offices that manage client contact, and project managers serve as the primary contacts to identify project sites and propose economic incentives.
International Development	Included above	Works to grow Indiana's relationship with the international business community and works closely with the Business Development department. International travel for members of these teams is generally financed through private donations. Note: International development staff could not be separately classified from Business Development.
Business Account Management Incentive Team (BAMIT)	7	Provides services to recipients of incentives, negotiates the terms of incentive agreements, evaluates company performance data, and helps ensure compliance with agreements. BAMIT generates approximately 400 new agreements each year and maintains more than 1,500.
Finance	9	Handles the agency's budgeting, accounting, fiscal oversight, and financial reporting.
Legal and Compliance	6	Drafts contracts, tracks company compliance, and negotiates with companies that have fallen out of compliance.
Marketing Department	8	Manages the sharing of information on the agency's activities with outside stakeholders. It also runs a small internal advertising agency that runs ad campaigns. IEDC communications staff have also been included in the FTE count.
Small Business and Entrepreneurship	10	Manages resources aimed at assisting entrepreneurs. The Office of Small Business and Entrepreneurship was added to the IEDC in 2017.
Executive Office and Policy	13	Includes the agency's president, chief operating officer, Secretary of Commerce, as well as policy and support staff.
Human Resources	5	Performs the human resource functions for the IEDC.
Economic Development Functions in Lieutenant Governor's Office		
Tourism Development	11	Markets the state to tourists. This office is not part of the IEDC but is instead overseen by the lieutenant governor. This office also supports film production in the state.
Community and Rural Affairs	15	The Indiana Office of Community and Rural Affairs administers the CDBG and helps coordinate federal funding to communities to improve their quality of life and to ensure the health and safety of citizens.

Source: IEDC 2014 and State of Indiana 2018

Funding

The total economic development budget in Indiana was $208 million in FY 2017, consisting of direct spending and tax credits. This budget is expected to rise to approximately $237 million by FY 2019. Excluding tax credits, the economic development spending was $111.3 million in FY 2017, and this is expected to rise to $129.4 million by FY 2019 (see Exhibit 3). The IEDC's budget was $82 million in FY 2017, and it is projected to rise to $96.5 million in FY 2019. The sizeable increase in the IEDC's budget from FY 2017 to FY 2019 is related to the proposed establishment of an Innovation and Entrepreneurship fund (approximately $10 million) and a new allocation of $4 million to the Regional Cities Initiative (Holcomb 2016).

Some economic development activity is housed in the Lieutenant Governor's Office, including marketing and tourism and the CDBG. Total economic development spending through the Lieutenant Governor's Office was $29 million in FY 2017, and this total is expected to rise to $33 million in FY 2019. The CDBG makes up the largest part of this budget.

Indiana spends approximately $100 million each year for economic development tax credits. As noted above, the EDGE and EDGE-R credits are by far the largest, totaling just under $70 million for tax year 2017.

Indiana has had several large allocations to economic development in recent years. The most significant of these was the creation of a $500 million economic development fund known as the Next Generation Trust Fund in 2006, which was created using part of the $3.8 billion the state received from leasing the Indiana Toll Road (Wilson 2017). In 2017, the Next Generation Trust Fund was replaced by the Next Level Indiana Fund, which will invest up to $250 million in late-stage new businesses with connections to Indiana.

Additionally, Indiana recently made a significant investment in the Regional Cities Initiative. The initiative, described in greater detail above, received $126 million from a 2015 state tax amnesty program. The IEDC used these funds to incent regions to develop strategic plans. The original proposal called for two regions to be awarded $42 million each, but when the amnesty program exceeded revenue expectations, the state added a third $42 million award (Indiana Regional Cities Initiative 2017).

Exhibit 3 shows Indiana's economic development spending using the standardized budget categories developed for this report. Using these categories, Indiana spent $55.8 million attracting business investment in FY 2017. Community vitality spending totaled $21.1 million, and $12.9 million was spent supporting the improvement of Indiana's public image. Administrative operations spending totaled $21.5 million. Arts and film spending was included in the business marketing line item and cannot be separately presented.

EXHIBIT 3. Total Economic Development Funding

Item	FY 2017	FY 2018	FY 2019
Business Investment			
Entrepreneurship and Innovation	$5,922,716	$13,729,476	$13,729,476
Access to Capital	$1,148,992	$1,148,992	$1,148,992
Business Development Incentives	$46,915,841	$48,328,060	$48,328,060
Business Development Services	$641,486	$731,454	$731,454
International Trade	$1,195,231	$0	$0

Total Business Investment	**$55,824,266**	**$63,937,982**	**$63,937,982**
Community Vitality			
Community Development Incentives	$19,576,423	$25,046,663	$29,046,663
Community Development Services	$1,505,877	$1,549,977	$1,549,977
Total Community Vitality	**$21,082,300**	**$26,596,640**	**$30,596,640**
Image			
Travel and Tourism	$4,757,637	$4,903,887	$4,903,887
Business Marketing	$8,115,684	$7,249,636	$7,249,636
Public Relations	Included elsewhere	Included elsewhere	Included elsewhere
Total Image	**$12,873,321**	**$12,153,523**	**$12,153,523**
Administrative Operations			
Total Administrative Operations	**$21,517,414**	**$22,712,645**	**$22,712,645**
Arts and Film			
Total Arts and Film	**Included elsewhere**	**Included elsewhere**	**Included elsewhere**
Total Economic Development Spending	**$111,297,301**	**$125,400,790**	**$129,400,790**

Source: Holcomb 2016 and PSC calculations

Evaluation

At a macro level, the IEDC tracks the following metrics:

- Total IEDC deals
- Average hourly wage from IEDC deals (weighted)
- Average payback period for incentives
- Total job revitalization rate
- Total private sector employment from deals

The IEDC also has some individual program metrics. For example, the Industrial Development Grant Fund tracks the incentive cost per job and the Skills Enhancement Fund tracks the average payback period in years for the incentive.

Most noteworthy, with respect to the IEDC's evaluation efforts, is its jobs realization report, a statutorily required annual report that shows whether economic development incentives are producing jobs at the expected level. The IEDC contracts with an independent firm to produce this report, and the report is included as an attachment to the IEDC's annual report (IEDC 2017).

The jobs realization report includes aggregated statistics on the total number of projects receiving incentives, the cumulative jobs expected from these incentives for the given year, and the actual new jobs that have been reported. The report also includes the average wage, annualized payroll, and income tax withholding from these jobs and how these totals compare to what was expected.

State investments through tax credits and incentives are compared to the benefits produced by these jobs. The job creation needed at the average wage of the jobs is calculated and this total is compared to the actual cumulative jobs created. An example of these calculations from the 2016 report is presented in Exhibit 4.

EXHIBIT 4. 2016 Indiana State Benefit Calculation

	2016 Actual
Annualized Withholding Benefit	$173,082,513
State Investment	$95,440,080
Net Benefit to the State	$77,642,433
Job Creation Necessary to Break Even at Average Wage	$68,084
Actual Cumulative Job Creation	$123,469

Source: IEDC 2017

In addition to aggregated totals, the job realization report contains project-specific detail for each active project—the 2016 report had information for 1,581 projects. Among other information, for each project, the report contains the new jobs created, new investments made, the size of the incentive, and whether the project is in compliance with the terms of the deal.

North Carolina

Overview

North Carolina pursues a hybrid privatization approach to economic development, with a nonprofit, the Economic Development Partnership of North Carolina (EDPNC), working on a contract basis with the North Carolina Department of Commerce (NCDC). The EDPNC focuses on business development, marketing, and tourism promotion, while the NCDC manages and administers the key incentive programs used to support new and expanding businesses in the state.

Strategic Focus

The EDPNC and the NCDC share a common focus on economic development in North Carolina, but they have different missions.

The EDPNC is focused on "recruiting new businesses to the state, supporting the needs of existing businesses, connecting exporters to global customers, helping small-business owners get their start, and attracting tourists and visitors from all over the world" (EDPNC n.d.a). To achieve its mission, the EDPNC's core focus areas are:

- Business recruitment
- Existing industry support
- Export assistance
- Small-business startup counseling
- Tourism promotion

With its business recruitment effort, the EDPNC leads business development in North Carolina and markets North Carolina products and companies. The EDPNC also focuses on retaining and expanding existing employers and connects businesses to state services as a resource matchmaker. EDPNC contractors work to identify overseas customers for North Carolina products, and they help small and midsize manufacturers enter and navigate new markets to grow their sales. The EDPNC assists entrepreneurs in starting up new businesses and helps them navigate state and local permits, licenses, and other issues. Finally, the EDPNC manages tourism efforts in North Carolina and provides financial support for film/TV production (Chung 2017).

The NCDC's mission is to "improve the economic well-being and quality of life for all North Carolinians. To do that, the NCDC works closely with local, regional, national, and international organizations to propel economic, community, and workforce development for the state" (NCDC n.d.a). According to the NCDC, this mission is achieved through implementation of the following core focus areas:

- Site selection assistance for businesses
- Employer-tailored workforce development services
- Infrastructure investments
- Business development services to promote a strong business climate

The NCDC also connects local communities with the grants and funding they need to attract new business and ensure future prosperity. The NCDC administers the state's economic incentives program and publishes data, statistics, information, and reports for those interested in North Carolina's economy. The NCDC contracts with the EDPNC to market North Carolina as a business and visitor destination.

Audience Segmentation

The NCDC ranks the state's 100 counties based on economic well-being and assigns each a tier designation, with the 40 most distressed counties being designated as Tier 1, the next 40 as Tier 2, and the 20 least distressed as Tier 3. These designations affect the incentives available to businesses as a means of encouraging development in the state's less prosperous regions (NCDC n.d.b).

The EDPNC operates regionally by dividing the state into eight multicounty prosperity zones, and it assigns staff to work in each of these eight zones. The EDPNC operates overseas as well, with contractors supporting export assistance in China, South Korea, Japan, Germany, India, and the United Arab Emirates.

North Carolina completes a statewide economic development strategy every five years, and the strategy identified the following 11 target industries:

- Aerospace and defense
- Automotive
- Biotechnology and pharmaceuticals
- Business and financial services
- Corporate headquarters
- Energy
- Food processing and manufacturing
- Furniture
- Information and technology
- Plastics and chemicals
- Textiles

Tactics

North Carolina uses a number of performance-based incentives to help companies that are moving to and doing business in North Carolina. These incentives include the state's county tier system, which encourages investment in less-developed parts of the state; discretionary grants; building demolition and reuse; public infrastructure and transportation support; workforce development and training; and tax exemptions (NCDC n.d.b). Unlike many states, North Carolina does not rely heavily on tax incentives to support economic development, limiting its tax incentives to sales tax incentives on purchases related to specific industries, such as manufacturing, data centers, and film.

Discretionary Grants and Tax Exemptions

Job Development Investment Grant

The Job Development Investment Grant (JDIG) is a performance-based, discretionary incentive program that provides cash grants directly to new and expanding companies. The amount of the grant is based on a percentage of the personal income tax withholdings associated with the new jobs, and it is calculated by weighing a number of factors, including the location of the project, the county tier designation, the number of net new jobs, the wages of the jobs compared to the county average wage, the level of investment, and whether the industry is one of the state's 11 targeted industry sectors (EDPNC n.d.c).

JDIG Transformative Project

There is a special JDIG grant allowance for projects that create at least 3,000 jobs and invest at least $1 billion in up to ten years. Once the minimum transformative project requirements are met and maintained, the company can receive annual grant payments of up to 90 percent of personal income tax withholdings of eligible employees for up to 30 years. In addition, as long as the company maintains the minimum requirements, all jobs created over the term of the grant, up to 30 years, can be included in the annual grant payment calculations (EDPNC n.d.d).

Tax Exemptions

While North Carolina does not provide as many tax credits as other states, it does provide sales and use tax exemptions for large machinery, equipment, and purchases related to manufacturing, data center sales and tax use exemptions, large fulfillment facilities, research and development and software publishing sales tax exemptions, and pollution abatement equipment and recycling. Additionally, the state provides the Historic Preservation Tax Credit and the North Carolina Film Incentive, which provide a 25 percent rebate on qualifying purchases and expenses.

Investment Funds

One North Carolina Fund

The One North Carolina Fund (OneNC) is a discretionary cash-grant program that allows the governor to respond quickly to business development opportunities. The NCDC administers OneNC on the governor's behalf, and awards are based on the number of jobs created, level of investment, location of the project, economic impact of the project, and the importance of the project to the state and region (EDPNC n.d.a).

Other Tactics

Building Demolition and Reuse

There are a number of community development programs in North Carolina that focus on building demolition and reuse. These programs include the CDBG program that provides grants for the demolition of industrial properties and for the adaptive reuse of industrial and commercial properties. North Carolina also has rural demolition and building reuse programs that provide grants to local governments to support demolition and renovation of vacant structures.

Public Infrastructure and Transportation

North Carolina also utilizes CDBG funds to provide assistance to local units of government for public infrastructure development, including transportation. In addition, North Carolina's Departments of Commerce and Transportation coordinate efforts to implement the Joint Economic Development Program, which supports transportation improvements and infrastructure that expedite industrial/commercial growth and create new jobs. For rural communities, North Carolina also provides infrastructure grants to lower-income counties that qualify as Tier 1 and Tier 2 and grants for public infrastructure projects that create jobs in rural communities.

Organizational Structure and Staffing

Administrative Structure

North Carolina divides its economic development function into two organizations: the EDPNC and the NCDC. The EDPNC appears to function similarly to the MEDC in that it is essentially a private organization that is closely aligned with government, which allows for greater flexibility and the ability to leverage private resources while pursuing economic development objectives for the benefit of the public. The EDPNC shares even closer ties to the JobsOhio organization, in that both organizations have a narrower focus than the MEDC, with other state agencies charged with implementing community development initiatives.

Economic Development Partnership of North Carolina

In 2013, the General Assembly of North Carolina enacted House Bill 1031, which authorized the NCDC to contract with a nonprofit corporation to "assist the department in fostering and retaining jobs and business development, international trade, marketing, and travel and tourism" (State of North Carolina 2013). On October 6, 2014, the NCDC entered into a contract with the EDPNC to serve in this capacity and operate as the sales and marketing arm of the State of North Carolina responsible for business recruitment; existing industry and small-business support; import and export assistance; and marketing, tourism, film, and sports development. The EDPNC is governed by a 17-member board of business and industry leaders from across the state and has 65 employees in North Carolina and in overseas offices. It is organized into divisions as shown in Exhibit 1.

EXHIBIT 1. EDPNC Structure and Services

Division	FTEs	Description
Business Recruitment	9	Provides incentives to recruit new business development in North Carolina.
Existing Industry and Small-business Support	15	Focuses on launching and accelerating the growth of existing businesses in the state.
International Trade	6	Supports export assistance and foreign investment.
Tourism	14	Coordinates marketing and economic development initiatives to support increasing tourism in North Carolina.
Marketing and Business Development	14	Supports marketing efforts to support the growth of North Carolina businesses.
Administration	6	Provides internal operational support to ensure the organization is running effectively.

Source: Analysis completed by PSC.

North Carolina Department of Commerce

The NCDC leads economic and workforce development for North Carolina and is organized into five divisions by function. The North Carolina Division of Employment Security manages the state's unemployment system, supporting workers in transition. The North Carolina Labor and Economic Analysis Division conducts research and publishes reports on the state's economy and labor market. The Rural Economic Development Division provides technical assistance to local communities and connects them with additional funding. The Office of Science, Technology, and Innovation identifies and communicates opportunities in science and technology across the state. The Division of Workforce Solutions helps North Carolina residents find employment and administers federal workforce funding. The NCDC also contracts with the EDPNC to support business development, marketing, and tourism.

The NCDC currently employs approximately 1,451 individuals, which includes workforce development staff located across the state (North Carolina Office of the State Auditor 2018). According to the state's budget, there are 180.25 FTEs working on the general functions of the NCDC, with specific allocations by function as shown in Exhibit 2.

EXHIBIT 2. NCDC Structure and Services

Program Areas	FTEs	Description
Administrative Services	40	Provides internal operational support for the agency.
Office of Science, Technology, and Innovation	2	Provides tactical and strategic programs and services to advance economic growth in the state.
Management Information Systems	6	Provides a flexible information network that can deliver services securely, in a timely manner, and within budget.
Labor and Economic Analysis	44	Collects data, conducts research and analysis, and publishes reports about the state's economy and labor market.
Graphics	2	Provides marketing and graphics support to assist the department.
Rural Economic Development	5	Provides planning services, analysis, and identification of resources needed to strengthen rural economic and community development projects.
Travel Inquiry Section	3	Provides travel assistance to persons interested in visiting North Carolina.
Welcome Centers	42	Provides administrative support to the welcome centers across the state.
Industrial Finance Center	5	Provides support for industrial development in North Carolina.
Community Assistance	18	Facilitates connections to community development resources.
Community Development Block Grants	8	Coordinates the implementation of the federal CDBG funds to implement community development projects across the state.
Community Assistance—Neighborhood Stabilization Program	3	Provides targeted emergency housing assistance.

Source: North Carolina Office of State Budget and Management 2017

Hybrid Privatization Approach

The EDPNC engages with businesses, identifies their needs, and brings them to the NCDC, which then approves and administers North Carolina's incentive programs to address these companies' issues. According to CEO Christopher Chung (2017), "we package up the project and [the NCDC] manages the incentives." This public-private partnership between the EDPNC and NCDC has been described as a "hybrid privatization," which has a number of benefits. The EDPNC is able to fundraise from private and philanthropic sources, and they can take a different approach to accountability, reporting to a 17-member board that is composed of business professionals who bring an understanding of business and emphasis on results. However, while the EDPNC can raise outside funding, the majority of its funding comes from its contract with the NCDC, which runs the risk that a change in NCDC leadership could strongly impact the EDPNC's independence.

Funding

The nonprofit EDPNC is primarily funded by public dollars, with 88 percent of its FY 2017–2018 budget coming from state funds, a total of $18.5 million. The EDPNC also received $3.5 million of additional state funds on a nonrecurring basis. The EDPNC's contract requires it to raise significant financial support each year from private investors, and in 2017–2018 this accounts for approximately 6 percent of the overall budget, which is $1.4 million. The EDPNC also received $1.1 million in federal grants. The majority of the funding, by functional area, goes to tourism activities, which include advertising and state promotions. The funding for other categories, including business development, existing industry, small-business support, and international trade, goes to the personnel and contractors that provide technical assistance on behalf of the EDPNC. Given the unique nature of the EDPNC's structure and operations, Exhibit 3 shows additional detail regarding its revenues and expenditures.

EXHIBIT 3. EDPNC Revenue and Expenses FY 2017–2018

	2017–2018	Percentage
EDPNC Funding Sources		
State Funds (Recurring)	$18,500,000	74%
State Funds (Nonrecurring)	$3,500,000	14%
Federal Grants	$1,150,000	5%
Private Funds	$1,400,000	6%
Other Income	$350,000	1%
Total	**$24,900,000**	**100%**
EDPNC Uses by Functional Area		
Tourism	$13,180,000	53%
Existing Industry and Small-business Support	$1,600,000	6%
International Trade	$2,720,000	11%
Business Recruitment	$1,480,000	6%
Marketing and Business Development	$4,680,000	19%
Administration	$1,240,000	5%
Total	**$24,900,000**	**100%**

Source: EDPNC 2017

EDPNC represents 10 percent of the overall economic development funding spent in North Carolina. This budget is dominated by intergovernmental transfers, including incentive programs such as JDIG and OneNC, which are captured in Exhibit 4 under the business development incentives line item. Community development incentives include the CDBG program and its support for demolition, building adaptation, and infrastructure.

EXHIBIT 4. North Carolina Economic Development Funding

Item	FY 2017	FY 2018	FY 2019
Business Investment			
Entrepreneurship and Innovation	$4,061,692	$332,505	$332,505
Access to Capital	$8,144,049	$9,421,807	$8,160,402
Business Development Incentives	$850,315	$75,927,562	$81,203,113
Business Development Services	$41,114,948	$27,195,490	$23,695,490
International Trade	Included elsewhere	Included elsewhere	Included elsewhere
Total Business Investment	**$54,171,004**	**$112,877,364**	**$113,391,510**
Community Vitality			
Community Development Incentives	$45,030,249	$46,232,080	$46,232,080
Community Development Services	$16,740,751	$26,438,268	$14,408,268

Item	FY 2017	FY 2018	FY 2019
Total Community Vitality	**$61,771,000**	**$72,670,348**	**$60,640,348**
Image			
Travel and Tourism	$2,512,837	$2,675,930	$2,675,930
Business Marketing	Included elsewhere	Included elsewhere	Included elsewhere
Public Relations	Included elsewhere	Included elsewhere	Included elsewhere
Total Image	**$2,512,837**	**$2,675,930**	**$2,675,930**
Administrative Operations			
Total Administrative Operations	**$4,249,597**	**$5,922,992**	**$5,947,992**
Arts and Film			
Total Arts and Film	**Included elsewhere**	**Included elsewhere**	**Included elsewhere**
Total Economic Development Spending	**$122,704,438**	**$194,146,634**	**$182,655,780**

Source: North Carolina Office of State Budget and Management 2017
Note: Spending based on public funding sources. The EDPNC also raises approximately 6 percent of its funding from private sources. Funding performed by EDPNC is captured under the Business Development Services line item.

Evaluation

In its 2017 annual report, the EDPNC cited that it successfully completed 150 new projects, creating 19,999 new jobs and generating $4.14 billion in new capital investment and $1.1 billion in new annual payroll. Breaking these numbers down, 37 percent of the projects and 13,332 jobs were for companies establishing new facilities in the state, while 63 percent of the projects and 6,667 jobs were for expansions of existing facilities in the state (EDPNC 2018). It is important to note that these metrics were achieved in partnership with the NCDC, which approves and administers the incentives used by the EDPNC in its business expansion and recruitment efforts. However, the EDPNC is only four years old and any assessment of its overall effectiveness is limited.

The EDPNC tracks progress of metrics for each of their major strategies, and it shares its results against these metrics through public annual reports. The 2017 annual report identifies the following metrics by strategy:

- Business Recruitment
    - Number of recruitment projects successfully won
    - Number of projects in Tier 1 and Tier 2 counties
    - Number of announced new jobs
    - Dollars in announced new capital
- Existing Industry Support
    - Number of expansion projects successfully won
    - Number of projects won in Tier 1 and Tier 2 counties
    - Number of announced new jobs
    - Amount of announced new capital investment
    - Number of existing employers supported
    - Percentage of employers supported in Tier 1 and Tier 2 counties

- Export Assistance
    - Existing manufacturers receiving export assistance
    - New export sales reported by manufacturers receiving export assistance
- Small-business Startup Counseling
    - Number of individual and startup cases assisted
    - Percentage of cases assisted in Tier 1 and Tier 2 counties
    - Percentage of calls with customer satisfaction ratings of four out of five or higher
    - Number of presentations to target entrepreneur groups
- Tourism
    - Amount in domestic visitor spending
    - Number of consumer inquiries via website or toll-free hotline
    - Number of cooperative marketing partners in Tier 1 or 2 counties (EDPNC 2017)

With regard to the NCDC, it is more difficult to assess its impact. In its 2017–2019 strategic plan, the NCDC set forth five major goals for the organization. NCDC is also required to report on these goals through a performance monitoring plan.

- **Goal one:** To support the growth of North Carolina's economy through collaborative partnerships with businesses, communities, and citizens while ensuring responsible stewardship of tax dollars
- **Goal two:** To promote job creation and business expansion in collaboration with the EDPNC while addressing the needs of public infrastructure in all areas of the state
- **Goal three:** To deliver quality, timely, and consistent services to businesses and recipients of unemployment benefits while simultaneously fostering the advancement of a skilled workforce and job place services
- **Goal four:** To make available high-quality labor statistics, economic information, and analysis and to advise on the role of science, technology, and innovation
- **Goal five:** To provide best-in-class customer service, executed with the appropriate sense of urgency and commitment in an environment of collaborative communication and partnership (North Carolina Office of the State Auditor 2018)

While the NCDC is required to report on performance measures, these are not publicly available, and according to a recent audit from the North Carolina state auditor, the NCDC focuses on output measures, such as hours worked, as opposed to outcome-based measures. In this case, "the use of more outcome-based measures could help improve performance because they inform on the quality of services and the extent to which objectives have been achieved. In contrast, workload (output) measures only report the direct results of activities and programs" (North Carolina Office of the State Auditor 2018).

Ohio

Overview

Ohio supports economic development through two different organizations: JobsOhio and the Ohio Development Services Agency (DSA). JobsOhio is a private, nonprofit corporation that focuses on business development, and the DSA is a government agency responsible for the state's economic development as a whole.

In establishing a separate, private EDO with its own funding sources outside of state government, Ohio has taken a unique approach to economic development. According to JobsOhio, this privatized model has a number of benefits. For example, with a board representing various industries, decisions can be made without the influence of politics. Additionally, with a private-sector approach, the organization can focus on investment return and protect confidentiality, which is important in negotiating economic deals where the timing of information release is critical to deal closing. With independent funding sources, JobsOhio can also take a long-term approach and does not have to adjust its funding priorities to justify annual appropriations.

Strategic Focus

JobsOhio and the DSA are both focused on supporting economic development in Ohio, and they have different but complementary missions.

As a private, nonprofit corporation, JobsOhio's mission is to "drive job creation and new capital investment in Ohio through business attraction, retention, and expansion efforts" (JobsOhio n.d.a). In practice, JobsOhio serves as the lead business development organization for Ohio, focusing on business attraction and expansion. The DSA is committed to "creating jobs and building strong communities, while ensuring accountability and transparency of taxpayer money and exceptional customer service" (State of Ohio n.d.). In practice, the DSA leads Ohio efforts in community and rural development, entrepreneur and small-business support, international trade, and tourism, while providing support to JobsOhio in the area of business development.

Where JobsOhio and the DSA complement each other in terms of mission, they differ significantly in terms of their approach. While the DSA focuses on administering programs in support of economic and community development in Ohio, JobsOhio is focused on developing solutions specific to a company's needs. JobsOhio is able to take a client-focused approach by engaging with companies on a peer-to-peer basis, leveraging the private-sector experience of its personnel. While JobsOhio and the DSA approach economic development differently, they coordinate regularly through periodic meetings while also cooperating around key decisions with regard to the use of economic incentives.

Audience Segmentation

Ohio divides the market for its economic development efforts by region, industry sector, and international market. Ohio contains three major population centers—Cincinnati, Cleveland, and Columbus—as well as other significant population centers, such as Toledo, Dayton, and Nelsonville. To address these diverse areas, JobsOhio is the central, statewide organization that takes the lead in coordinating economic development across the state. To facilitate coordination, JobsOhio organizes the state into six geographic regions anchored by major metropolitan areas and provides $10 million per year in funding to the regional EDOs. JobsOhio convenes the business development leads from these organizations every six weeks and attributes its success to the frequent local engagement.

Within its overall mission and geographic approach, JobsOhio focuses on nine industries and employs five cross-sector strategies to diversify Ohio's economy (JobsOhio 2018). The organization worked with economists to develop its industry targets, building on Ohio's core strengths while also encouraging job creation and new capital investment in emerging growth-oriented industries. The nine industry targets are:

- Advanced manufacturing
- Aerospace and innovation
- Automotive
- Biohealth
- Energy and chemicals
- Financial services
- Food and agribusiness
- Information technology
- Logistics and distribution

JobsOhio's five cross-sector strategies include:

- **Fintech:** The intersection of financial services and technology
- **Autonomous and connected vehicles/smart mobility:** Investing in facilities, infrastructure, and research and development to support development, testing, and manufacturing of connected and self-driving vehicles
- **Carbon fiber:** Investing in lightweight carbon fiber to support Ohio's automotive, advanced manufacturing, and aerospace and aviation industries
- **Health tech:** Using technology to improve patient experience, reduce costs, and improve health outcomes
- **The Internet of Things:** Using the Internet to connect devices and equipment and collect data that can be used to improve decision making

Ohio is also engaged in expanding their export base and encouraging investments through building partnerships abroad, with a special focus on Europe and Asia.

Tactics

Ohio has a number of tax incentives as well as loan and grant programs to support companies interested in starting, relocating, or expanding operations in the state (JobsOhio n.d.b).

Tax Credits

Job Creation Tax Credit

The Job Creation Tax Credit is a refundable and performance-based tax credit calculated as a percentage of payroll created by a project, and it is applied toward the company's commercial activity tax liability. Companies that create at least ten jobs (within three years) with a minimum annual payroll of $660,000 and that pay at least 150 percent of the federal minimum wage are eligible for the credit.

Ohio Motion Picture Tax Credit

The Ohio Motion Picture Tax Credit offers a refundable, transferable tax credit of 30 percent on production cast and crew wages plus other eligible in-state spending. In 2016, Ohio doubled the cap on its film tax credit from $40 million every two years to $40 million annually.

Investment Funds, Loan Programs, and Grants

JobsOhio Economic Development Grant

The JobsOhio Economic Development Grant promotes economic development, business expansion, and job creation by providing funding for eligible projects, which JobsOhio defines as being tied to targeted industries and business functions. The grant focuses on fixed-asset and infrastructure investments by companies, including land, building, infrastructure, feasibility studies, engineering, and machinery.

JobsOhio Growth Fund

The JobsOhio Growth Fund provides capital for expansion projects to companies that have limited access to funding from conventional, private financing sources. Loans are typically between $500,000 and $5 million. The grant focuses on fixed-asset investments, including land, buildings, and machinery and has a fixed-rate for ten to 15 years.

JobsOhio Research and Development Center Grant

The JobsOhio Research and Development Center Grant facilitates the creation of strategic corporate research and development centers in Ohio to support the development and commercialization of emerging technologies and products of targeted industries (advanced manufacturing, aerospace and aviation, automotive, healthcare, financial services, food processing, information technology, logistics and distribution, and shale energy and petrochemicals). Grant agreements can last for up to five years.

Research and Development Investment Loan Fund

The Research and Development Investment Loan Fund provides loan financing ranging from $500,000 to $5 million for projects focused on research and development. Loans are at fixed rates at or below market rates. Recipients are also eligible for a tax credit for principal and interest payments made annually up to $150,000 during the loan term.

The 166 Direct Loan

The 166 Direct Loan provides capital for expansion projects to companies that are challenged in sourcing private capital. Eligible businesses can receive loans for land and building acquisition, construction, expansion, or renovation, as well as equipment purchases. The loans are low-interest and can cover up to 40 percent of the cost of the project, not to exceed $1.5 million.

Ohio Enterprise Bond Fund

The Ohio Enterprise Bond Fund uses the proceeds from bonds issued by the state treasurer to make loans to businesses for projects that create or preserve employment opportunities in Ohio. Loan terms range from seven to ten years for equipment and 15 to 20 years for real estate, and the loans are at costs comparable to those of rated multinational corporations.

Innovation Ohio Loan Fund

The Innovation Ohio Loan Fund provides loans to Ohio companies with limited access to capital from commercial sources due to the risks associated with developing new products. The loan provides financing for acquisition; construction; and related capital costs of technology, facilities, and equipment purchases in key industry sectors identified by the State of Ohio. Loans range from $500,000 to $1.5 million and can cover up to 75 percent of the project cost.

Other Tactics

JobsOhio Revitalization Program

The JobsOhio Revitalization Program focuses on helping rejuvenate sites in Ohio where the costs of cleanup and property redevelopment exceed land value, making it difficult for the private market to support redevelopment. The program focuses on the revitalization of sites that create new investments and jobs by removing blight, increasing the local tax base, and achieving the productive reuse of property. The program includes both loans and grants and is available to public and private entities.

JobsOhio Workforce Grant

The JobsOhio Workforce Grant promotes economic development, business expansion, and job creation by providing training and improving the skills of workers. Grants are provided to employers based on the number of jobs created, private investment in projects, return on investment, and project location, among other factors. JobsOhio is also interested in using the program to drive improvements in operational efficiencies and the expansion of production for participating businesses.

Organizational Structure and Staffing

Economic development efforts in Ohio are implemented by two key organizations: JobsOhio and the Development Services Agency.

JobsOhio is a private, nonprofit corporation that focuses on business development. It was created under Gov. John Kasich in February 2011 through Ohio House Bill 1, which authorized the governor to form a nonprofit corporation with the purposes of "promoting economic development, job creation, job retention, job training, and the recruitment of businesses to the state" (State of Ohio 2011). JobsOhio took over these functions from its predecessor, Ohio's Department of Development. It is governed by a private nine-member board composed of representatives from industry, the medical community, and academia. As a private nonprofit, JobsOhio is not subject to many of the transparency and ethics regulations that apply to government agencies, including open meetings, procurement, and collective bargaining.

JobsOhio has 94 FTE positions. It has a 12-person executive team, and it aligns its staff by industry sector, with senior directors leading each of the nine targeted industry sectors. It also has teams focused on business development, project management and finance, and international business development. The industry, business development, and international teams are front facing, while the project management and finance teams provide operational support (JobsOhio n.d.c).

Ohio's DSA is the government agency responsible for economic development. Where JobsOhio focuses on business development, the DSA focuses on community development, including the use of federal CDBGs; rural development; entrepreneurship; and innovation through the state's Third Frontier program, international trade, film, and tourism. It also administers a few economic development programs and incentives that support JobsOhio in business development.

The DSA is organized into three program divisions—Community Services, Business Services, and Minority Business—as well as an Operations division, comprising 302 FTE positions. The Community Services division is composed of two offices, the Office of Community Assistance and the Office of Community Development, while the Business Services division has two offices, the Office of Strategic Investments and the Office of Small Business Entrepreneurship (Middleton 2017).

EXHIBIT 1. JobsOhio Structure and Services

Division	FTEs	Description
Executive	12	Leads JobsOhio team.
Industry Sector	8	Engages advanced manufacturing, aerospace and innovation, automotive, biohealth, energy and chemicals, financial services, food and agribusiness, information technology, and logistics and distribution industry sectors.
Business Development	4	Supports companies interested in expanding or relocating to Ohio.
International Business Development	11	Supports engagement between Ohio and other countries, focusing on Europe and Asia.
Project and Finance	19	Assists companies in identifying resources while supporting site identification and identifying Ohio talent and incentive programs.
Other/Unidentified	40	Other support staff or unspecified FTEs.

Source: Analysis completed by PSC.

EXHIBIT 2. DSA Structure and Services

Division	FTEs	Description
Community Assistance	86	Administers aid to low-income Ohio residents, including energy assistance.
Community Development	42.5	Provides support to communities by administering Community Development Block Grants.
Strategic Investments	49	Works with JobsOhio to package business attraction and expansion incentives and monitors these awards.
Small Business Assistance	27.5	Promotes business development across Ohio with an emphasis on investment in technology through the state's Third Frontier program.
Minority Business	10	Works with the business services division to provide state financial assistance to small, minority, and disadvantaged businesses.
Operations	76	Supports department with finance, information technology, legal, and communications personnel.
TourismOhio	11	Promotes Ohio as a tourism destination.

Source: Analysis completed by PSC.

Funding

JobsOhio's funding model is unlike any other EDO in the country, as it does not use public tax dollars to support operations and programs. JobsOhio receives its funding exclusively through the profits from the JobsOhio Beverage System (JOBS) liquor enterprise.

Created in 2011, JOBS is a private nonprofit that acquired an exclusive franchise from Ohio for the sale of liquor for an initial payment of $1.4 billion, plus additional future payments. To complete this acquisition without the use of public funds, JOBS issued special-obligation private revenue bonds, and bondholders will be paid over the 25-year term of the franchise. Since 2013, JobsOhio has been funded exclusively by the profits from liquor sales in Ohio, which are granted after JOBS has paid for its operating expenses.

In 2017, JOBS and JobsOhio's combined operating revenues were approximately $1.15 billion and combined expenses were $1.04 billion. In terms of economic development programs and operations, JobsOhio had $134.2 million in expenses in 2017. Given the unique nature of JobsOhio's structure and operations, the exhibit below provides additional detail regarding its revenues and expenditures.

EXHIBIT 3. JobsOhio Funding Sources and Expenses 2017

Item	2017 Revenues and Expenses
Operating Revenues	
JOBS	
Retail Net Liquor Sales	$830,133,000
Wholesale Net Liquor sales	$314,562,000
Distribution Center Revenue	$3,231,000
JobsOhio	
Interest Income—Loans	$2,082,000
Fees and Other	$482,000
Total Operating Revenues	**$1,150,490,000**
Operating Expenses	
JOBS	
Cost of Goods Sold	$693,333,000
Sales Commissions	$62,443,000
Liquor Gallonage Taxes	$47,367,000
Amortization of an Intangible Asset—Liquor Franchise	$55,197,000
Service Fees	$20,238,000
Supplemental Payment	$12,713,000
Other	$14,417,000
JobsOhio	
Economic Development Programs	$102,884,000
Salaries and Benefits	$11,539,000
Professional Services	$4,413,000
Administrative Support	$4,032,000
Marketing	$11,384,000
Total Operating Expenses	**$1,039,960,000**
Total Economic Development Operating Expenses	**$134,252,000**
Net Operating Income	**$109,930,000**

Source: JobsOhio 2018; PSC calculations

EXHIBIT 4. Ohio Economic Development Funding

Item	FY 2017	FY 2018	FY 2019
Business Investment			
Entrepreneurship and Innovation	$132,953,945	$143,768,394	$147,726,694
Access to Capital	$6,523,873	$12,219,350	$12,219,350
Business Development Incentives	$196,419,019	$239,977,150	$241,264,650
Business Development Services	$20,019,992	$21,682,299	$21,682,299
International Trade	$3,663,700	$4,125,174	$4,125,174
Total Business Investment	**$359,580,529**	**$421,772,367**	**$427,018,167**

Community Vitality			
Community Development Incentives	$96,956,795	$107,272,000	$107,272,000
Community Development Services	$3,625,796	$4,296,104	$3,938,604
Total Community Vitality	**$100,582,591**	**$111,568,104**	**$111,210,604**
Image			
Travel and Tourism	$8,993,418	$10,150,000	$10,150,000
Business Marketing	$11,384,000	$11,384,000	$11,384,000
Public Relations	Included elsewhere	Included elsewhere	Included elsewhere
Total Image	**$20,377,418**	**$21,534,000**	**$21,534,000**
Administrative Operations			
Total Administrative Operations	**$14,260,883**	**$15,532,000**	**$15,532,000**
Arts and Film			
Total Arts and Film	**Included elsewhere**	**Included elsewhere**	**Included elsewhere**
Total Economic Development Spending	**$494,801,421**	**$570,406,471**	**$575,294,771**

Source: Ohio Office of Budget and Management n.d.; JobsOhio 2018; PSC calculations
Note: Since JobsOhio is a private nonprofit, it reports its expenditures annually. FY 2018 and FY 2019 estimates for business development, business marketing, and administrative operations include JobsOhio estimates based on 2017 calendar year economic development expenses.

Evaluation

JobsOhio measures the impact of its projects by looking at jobs, payroll, and capital investment metrics. They recognized that these metrics do not reflect the projects' indirect impacts, including construction jobs, supply chain activities, and other economic benefits from the investment. JobsOhio reports on the following metrics annually, and GuideStar, a leading nonprofit database, recognized them in 2018 with the Platinum Seal of Transparency.

- Total number of projects
- New jobs and new jobs payroll
- Total jobs and total jobs payroll
- Retained jobs and retained jobs payroll
- Capital investment
- Percentage of projects that break even in year one
- Jobs created, jobs retained, and capital investment by targeted industry

According to a 2018 evaluation of JobsOhio by McKinsey & Company, JobsOhio was ranked in the top five compared to other EDOs evaluated (McKinsey & Company 2018). In 2017, JobsOhio ranked as the number three state EDO in the country, according to a new survey of U.S. corporate executives and site selection consultants released at the International Economic Development Council Annual Conference (JobsOhio 2017).

The DSA reported that their focus is on supporting job creation and strengthening communities across the state, while "ensuring strong program metrics and accountability and transparency of taxpayer money" (DSA 2016). The DSA focused on four goals:

- Assisting JobsOhio and the JobsOhio Network with recruiting employers by providing and monitoring taxpayer-supported incentives
- Assisting small businesses and entrepreneurs with what they need to grow through business guidance and access to capital
- Assisting communities to advance their economic development plans
- Helping low-income Ohioans with housing, heat, and other support (DSA 2016)

South Carolina

Overview

South Carolina, a state known for using large tax incentives to attract companies to invest in the state, operates a relatively decentralized economic development model. It relies on several state agencies and local EDOs to supplement the state's effort to recruit, retain, and expand business, jobs, and opportunity in the state.

The South Carolina Department of Commerce (DOC) is the primary economic and community development agency. Previously part of the State Development Board, this office became its own department in 1993. The DOC leads business attraction, job creation, business services, and community development efforts in the state. The DOC also leads the South Carolina Coordinating Council for Economic Development (CCED), which consists of 11 state agencies, including the departments of Revenue, Agriculture, Transportation, and Employment and Workforce.

South Carolina has two smaller economic development agencies as well—South Carolina Parks, Recreation, and Tourism (SCPRT) and the Jobs-Economic Development Authority (JEDA). The SCPRT operates 47 state parks; markets the state as a tourist destination; and, with the support of CCED, provides tourism and recreational development grants. The JEDA acts as the state's primary financial and capital access conduit. In addition to providing access to industrial revenue bonding and financial advisory services, the JEDA also administers the Taxable Bond Program and leads the State Small Business Credit Initiative. Since its creation in 1983, the JEDA reports that it has issued over $10.9 billion in bonds, which has supported the creation and retention of more than 249,147 jobs (JEDA 2018).

In addition to these state-executed strategies, local EDOs play a significant role in community development and business attraction using state funds. When compared to Michigan, this combination of state agencies and empowered local EDOs has created a more decentralized approach to economic development in South Carolina.

Strategic Focus

The combination of large state tax incentive programs focused on creating and retaining jobs, paired with a decentralized local approach to economic development leaves the state without a cohesive and transparent strategic plan. In a report to the legislature in March 2015, the DOC stated that it did not have a seven-year strategic plan, but the department does provide a set of strategic goals each year as part of its agency accountability reports. These goals can change from year to year but are relatively stable. In its FY 2018–2019 accountability report, the DOC assessed its performance against the following goals:

- Attract capital investment and job creation throughout South Carolina
- Build on the strengths of the state's existing, small, and emerging industries
- Increase the knowledge and available infrastructure in South Carolina through workforce and community development
- Serve as the connection for the business and education communities in order to prepare the workforce to meet industry demands
- Manage agency assets to achieve agency goals and objectives

Each of these goals has multiple aligned strategies that are connected to specific objectives that the department will be held accountable to at the end of the year. As part of these annual performance reports, the DOC lays out a vision for the state to be "more competitive in a global economy, providing South Carolinians of all ages and skill levels an opportunity to maximize their talents and abilities" (DOC 2018a). To accomplish this, the department strives to create "opportunities for South Carolinians by promoting job creation, economic growth, and improved living standards" (DOC 2018a).

The SCPRT, the state's lead agency for tourism promotion, is focused on "putting heads in beds, feet on fairways, and people in parks" (SCPRT September 2018). The SCPRT's mission is to grow the state's economy by supporting sustainable tourism economic development and selling the state as a tourist destination through marketing and communications. The major tourism components of the department's budget are resources to support sales and marketing efforts and manage the state's film office.

Audience Segmentation

South Carolina primarily segments its efforts by dividing resources between the state, regional, and local EDOs. The state targets most of its tax incentives and business development services on job creation and retention broadly, but many of those programs incentivize investment in less-developed areas. The DOC has also identified and supported targeted industry clusters, including:

- Advanced manufacturing and materials
- Aerospace
- Agribusiness
- Automotive
- Distribution and logistics
- Life sciences
- Office/shared services

In addition to these state-operated programs, the state also funds a relatively decentralized approach to economic and community development through grants and appropriations to regional and local EDOs. The DOC coordinates with these EDOs to ensure strategic alignment, but these organizations are given significant discretion on how to use these resources for closing business development deals and improving roads, sites, and other infrastructure.

Tactics

South Carolina's economic development tools are presented below organized into three categories: tax incentives, grants to local governments and EDOs, and global business development.

Tax Incentives

South Carolina historically uses tax incentives to attract large businesses to the state, most notably with a $130 million package that led to BMW building its first plant outside of Germany in Spartanburg County in 1992 (Schechter 2017). While the state offers dozens of credits on income, sales and use, and property taxes, the largest incentives focus on the state's income tax, with a particular focus on creating and retaining jobs.

Job or Employee Income Tax Credits

South Carolina's largest incentive program is the Job Development Credit (JDC), which is different than many of the state's other job-related tax credits because it does not reduce a specific tax liability. Instead, the JDC provides companies with funds for eligible capital expenditures, including property, site, and infrastructure development once they have reached agreed-upon job creation and capital investment benchmarks. In a report published in 2017, the Department of Revenue (DOR) estimated that the program credited over $87 million in individual withholdings in tax year 2015 (Martin 2017).

The Job Tax Credit (JTC), which is often paired with a JDC, is available for companies operating in many different sectors, including manufacturing, tourism, research and development, agribusiness, and banking. The state incentivizes businesses to invest in counties that are struggling economically by providing larger credits per job in those areas. An estimated $45 million in income taxes were credited during tax year 2015 in this program (Martin 2017). The state also offers several other smaller job-related tax credits, including the Small Business Job Tax Credit, Job Retraining Credits, and the Apprenticeship Credit.

Business, Industry-specific, and Other Income Tax Credits

South Carolina's Economic Impact Zone Credit, in which the state invested over $35 million in 2015, is available to companies investing in qualified manufacturing and productive equipment properties. In addition to this credit, the state offers a wide range of business tax credits, including credits for research and development, establishing a corporate headquarters in the state, and infrastructure development. South Carolina has also focused on developing targeted industry clusters, including aerospace, logistics, and life sciences. The state, through the SCPRT, also promotes the state's motion picture incentives.

Sales and Use Tax Incentives

South Carolina also provides sales tax exemptions to new and expanding industries when investing in eligible equipment, materials, energy resources, and infrastructure, including machinery, recycling and packaging materials, fuel, pollution control equipment, and construction materials. Some technology-intensive companies locating or expanding in South Carolina can be exempted from some sales taxes when investing over $300 million in real or personal property and creating over 100 new jobs over five years. There are additional restrictions to this program, however, like wage requirements and equipment purchasing minimums (DOC January 2018).

Property Tax Incentives

The final category of tax incentives is related to property taxes. According to state law, manufacturing companies able to meet specific investment and job creation benchmarks are entitled to county property tax abatements for five years, excluding the portion supporting local schools. The state also offers textile revitalization, historic building rehabilitation, and abandoned building revitalization property tax credits to encourage businesses to restore unusable or under-utilized properties.

Grants to Local Governments and Economic Development Organizations

In addition to providing companies with a wide range of tax incentives and credits, the state also offers business and community development grants. These resources are passed through state entities with varying levels of state control to maximize the flexibility for local leaders to invest in their priorities.

Business Development Grants to County Governments

There are three main business and community grant funds managed by the CCED—the Governor's Closing Fund, the Rural Infrastructure Fund (RIF), and the Set-Aside Fund. The Governor's Closing Fund, created in 2006 with $7 million, offers grants to county governments in order to encourage the creation of new jobs and capital investment. The state added nearly $27 million for this program in 2017. The RIF, created in 1996, provided $7 million in financial assistance to local governments in rural areas for infrastructure and economic development programs. The Set-Aside Fund, funded through utility tax revenue, provided $9 million in grants to local governments for infrastructure projects that have been certified by the CCED as representing a significant economic impact on surrounding areas. While the CCED is focused primarily on business development, it also provided three counties over $7 million for community development projects.

Community Development Services and Grants

The state's primary community development program is the federally funded Community Development Block Grant Program. Local governments that do not directly receive CDBG funding from the U.S. Department of Housing and Urban Development can be eligible to receive grants from this program, which can be used to fund community revitalization neighborhoods, improve community infrastructure, provide public facilities, and create or retain jobs (DOC 2018b). The DOC has also been administering emergency disaster relief CDBG funds, receiving over $191 million in 2017 following devastating hurricanes.

Rural Development Programs

To support rural development, the DOC also chairs the board of the South Carolina Rural Infrastructure Authority. Established in 2012, this authority assists rural communities with financing for infrastructure projects through grants and loan assistance. The state also receives $2 million as part of its participation in the federally led Appalachian Regional Commission. These funds are distributed through grants to the six predominantly rural counties in the state that fall within this region for projects that advance the commission goal of economic opportunity. The state also has $11 million remaining from its completion of a portion of the Appalachian Development Highway System, which it must use for building local access roads that facilitate economic development (DOC 2018c).

Tourism Grants

The SCPRT provides rehabilitation, advertising, marketing, and product development grants to local governments and tourism partners.

Small-business and Existing Industry Programs

South Carolina makes a relatively small investment, when compared to larger state income tax incentives, in small-business and existing industry programs. For small businesses, the state offers some tools, training, and services to support growth and expansion, including access to the South Carolina Innovation Hub, an online resource for entrepreneurs and investors to access each other, research, workspace, and funding. The Existing Industry Program offers assessment services to industries across the state and connects businesses with local and state entities to overcome market barriers and grow.

Palmetto Partners

The DOC is also part of the state's Palmetto Partners effort, which is a cooperative partnership of the state's economic development groups, eight regional economic development alliances, private businesses, and other industry groups. The primary purpose of this group is to raise private-sector resources for supporting special events, marketing, and initiatives that will attract capital investment and job creation.

Workforce Development

While the majority of workforce development programming is managed by the Department of Employment and Workforce (DEW), the DOC promotes a number of job training and retraining programs on its website as an economic development strategy. The DEW and DOC also work together on the

Defense Diversification program, which offers $3 million in grants to help existing defense contractors diversify their businesses to become less dependent on defense contracts over time.

Global Business Development

South Carolina has made significant investments in global business development efforts, with a focus on attracting international firms to set up secondary headquarters in the state, and allocates over $17 million in general fund dollars to support this program. The state has had an office in Germany since the 1970s, opened an office in Shanghai in the 1980s, and has since expanded to Japan, South Korea, and India.

State officials in these offices offer a number of different services, including:

- Identification of suitable communities, sites, and buildings
- Detailed information on industry sectors and operating costs
- Introduction to the state's probusiness environment
- Access to technical and workforce training programs
- Government assistance, language interpretation, and customary procedures
- An on-the-ground point of contact

These offices also offer trade assistance to existing South Carolina companies as well as access to the Landing Pad program that assists firms looking to open their first office in the United States. The trade assistance program highlights the state's "close relationships with the U.S. Commercial Service" and its ability to provide export training, market identification, and trade mission organization (DOC 2018d). The Landing Pad program is designed to assist international businesses with entry to the U.S. market, with a specific focus on companies planning to hire fewer than ten employees and invest less than $1 million in the initial entrance to the state. South Carolina's top exports are tires, vehicles, aircraft, and machinery, with its top international markets being China, Canada, Germany, and Mexico (DOC 2018d).

Organizational Structure and Staffing

South Carolina Department of Commerce

Unlike Michigan and many other states, South Carolina is one of a handful of that has a cabinet-level secretary running its primary EDO, the DOC. The DOC also plays a central role in the largest tax incentive and economic development grantmaking entity in the state, the CCED.

The DOC is funded to support 110 FTEs. In addition to administrative, research, external affairs, and legal counsel staff, the agency has several key divisions that lead economic and community development programs that would be managed by the MEDC in Michigan.

EXHIBIT 1. DOC Structure and Services

Division	Description
Grants Administration	Manages a wide range of economic development grants, programs, and other grants, including the JDC and federal CDBG funds. The director of this division also serves as the CCED's executive director. Administers more than $50 million in grants every year.
Business Services	Administers business development, existing industry, supplier outreach, and recycling market development programs.
Global Business Development	Recruits internal and domestic investment and manages existing industry support programs.
Small Business Supplier Outreach and Rural Development	Leads small-business supplier development, rural and community development enhancements, recycling development, and existing industry programs. These efforts include providing connections, tools, and training, and direct work with counties to implement RIF projects.
Marketing and Communications	Develops and executes the DOC's long-range strategic marketing and communications plans to create awareness of agency priorities, generate public support, and promote the state's business-friendly climate.

Source: Analysis completed by PSC.

Coordinating Council for Economic Development

The DOC also plays a central leadership role for the CCED, which was established in 1986 to improve coordination of interdepartmental economic development efforts to recruit, retain, and expand businesses in the state. The 11 state agencies that engage in some form of economic development make up this council, but its executive director is a DOC division director and the council's staff is housed within the DOC's Grants Administration Division. The CCED is an important place for the DOC to exert control of grants and tax incentives, because the DOC does not have statutory authority to offer definitive tax commitments. Only the CCED, the DOR, and local councils can enact these policies.

South Carolina Parks, Recreation, and Tourism

The SCPRT provides a wide range of services that are not directly related to economic development and only has a few staff members working in this area, including an economic development manager, a film project manager, and several communications and marketing managers (SCPRT September 2018). While the SCPRT's tourism development and marketing work align with the MEDC's efforts in these areas, the department also offers services that would fall outside the MEDC's responsibility, including offering recreational services and managing South Carolina's state parks.

South Carolina Department of Revenue and the Jobs-Economic Development Authority

While the DOR is primarily focused on ensuring tax and regulatory compliance, it does play a role in economic development through its authorization and administration of several state tax incentive programs. For example, the DOR contracts directly with companies that are eligible for a corporate income tax moratorium and has the final say on factors that affect tax credits, including the fair market value and depreciation rate of a business' property (DOC January 2018).

The Jobs-Economic Development Authority is the state's primary conduit issuer of tax-exempt and taxable debt. The JEDA issued $694 million in bonds to help businesses and nonprofit organizations access tax-exempt financing during fiscal year 2018.

Funding

The total economic development investment is difficult to estimate in South Carolina because of the high number and wide variety of agencies, incentives, and programs. There are also multiple state agencies and dozens of local EDOs operating in this space.

It is estimated that the state will invest about $195 million in economic development staff, programming, and grants in FY 2019 across the DOC, SCPRT, CCED, and JEDA. The only tax incentive included in this amount is the state's film tax credit, which is managed by the SCPRT and will be funded at $17 million in FY 2019. The DOC and CCED have seen steady budget growth from 2017 to 2019.

Outside of these figures, tax incentive expenditures can be broken down in several ways. For example, in 2017, the DOR released a report, using tax year 2015 data, that inventoried income tax expenditure investments. That year, the state provided $211 million in credits, with $87 million going to the JDC and $35 million going to the JTC. There has not been an identifiable trend in spending on these tax incentive expenditures over the last five years, and these totals do not include more than $191 million in disaster relief CDBG funds, sales and use tax exemptions, and property tax abatements.

EXHIBIT 2. DOC Economic Development Appropriations

	FY 2017	FY 2018	FY 2019
Administrative Operations			
Total Administrative Operations	**$3,932,963**	**$4,492,239**	**$5,291,528**
Business Investment			
Global Business Development	$11,993,065	$16,357,065	$17,357,065
Innovation and Emerging Industries	$219,000	$219,000	$219,000
Coordinating Council for Economic Development	$65,986,000	$70,786,000	$72,306,000
Total Business Development	**$78,198,065**	**$87,362,065**	**$89,882,065**
Community Vitality			
Small Business/Existing Industry	$1,914,000	$2,364,000	$2,389,000
Community and Rural Development	$645,000	$645,000	$685,000
Regional Education Centers	$940,000	$1,075,000	$3,577,000
Community Grants	$20,327,051	$20,327,051	$20,492,051
Total Community Development	**$23,826,051**	**$24,411,051**	**$27,143,051**
Image			
Total Image (Marketing, Communications, and Research)	**$2,987,049**	**$3,012,049**	**$3,262,049**
Total DOC Economic Development	**$108,944,128**	**$119,277,404**	**$125,578,693**

Source: Analysis completed by PSC.

EXHIBIT 3. SCPRT Economic Development Appropriations

	FY 2017	FY 2018	FY 2019
Administrative Operations			
Total Administrative Operations	$15,123,666	$15,963,533	$15,388,202
Image			
Total Image (Tourism, Sales, and Marketing)	$32,811,832	$35,601,213	$36,901,213
Arts and Film			
Total Arts and Film (State Film Office)	$13,831,639	$17,031,639	$17,031,639
Total SCPRT Economic Development	**$61,767,137**	**$68,596,385**	**$69,321,054**

Source: Analysis completed by PSC.

EXHIBIT 4. JEDA Economic Development Appropriations

	FY 2017	FY 2018	FY 2019
Administrative Operations			
Total JEDA Economic Development (Administration and Staffing)	**$423,150**	**$423,150**	**$423,150**

Source: Analysis completed by PSC.

EXHIBIT 5. Total South Carolina Economic Development Appropriations FY 2017–2019

	FY 2017	FY 2018	FY 2019
Total State Economic Development Funds (Staff, Programs, and Grants)	**$171,134,415**	**$188,296,939**	**$195,322,897**

Source: Analysis completed by PSC.

Evaluation

South Carolina has several statewide strategies to measure departmental success. Each year, state agencies file publicly available accountability reports with goals, metrics, and other details to help the state assess its efforts during the previous year. In the most recently released report, the DOC provided data on its performance against 27 different metrics, which are broken into several categories based on the strategic goal to which they are tied. For example, in FY 2018 the department exceeded its goals to attract $4 billion in capital investment and create 14,000 jobs (DOC 2018a).

These reports are designed to provide the governor and legislature with valuable information for budget development. While transparency in agency spending and performance are priorities, the state has historically not taken this same approach to tax incentives. Recently, the state has taken steps to increase transparency in this area and produced a report that inventories economic development tax incentives (Pew Charitable Trusts 2017d). While this report was a step in the right direction, it did not address effectiveness or economic impact.

Tennessee

Overview

The Tennessee Department of Economic and Community Development (TNECD) coordinates economic development services for communities, businesses, and industries in the state (Wilson 2016). As the state's leading EDO, the TNECD manages grants; tax incentives; and several rural, community, business, and international development programs.

The TNECD serves as Tennessee's main EDO, but the Tennessee Department of Tourist Development (TDTD) leads the state's tourism promotion and marketing efforts. While Tennessee uses a state government model for economic and community development, other states, such as Michigan, that use a quasigovernmental organization to offer a similar set of programs, incentives, and services could benefit from a close analysis of Tennessee's commitment to compliance and program evaluation.

Strategic Focus

The TNECD's stated philosophy is to "invest in Tennessee's greatest resources—the state's communities and people—through assistance in community-based infrastructure and training investments" (Wilson 2016). The department's top priorities are to create jobs, support the expansion of existing businesses, and recruit new industries and investment. To advance these priorities, the TNECD has organized its goals into six key performance areas:

- Long-term objectives
- Rural and community development
- Business development
- Entrepreneurship
- Workforce
- Other initiatives

Each goal is paired with a dashboard to track agency progress (Transparent Tennessee 2018). The department uses both broad and targeted objectives to drive its strategic priorities and measure success.

Audience Segmentation

Tennessee divides the market for its economic development efforts by industry sector, region, and international market. The TNECD provides a range of general business- and job-related credits and grants, but it has also developed materials for a list of industries that it is working to grow, including:

- Advanced manufacturing
- Aerospace and defense
- Automotive
- Business services
- Chemicals, plastics, and rubber
- Energy technology
- Entertainment
- Food and agribusiness
- Healthcare and medical devices
- Transportation, distribution, and logistics

In addition to targeting specific industries, Tennessee also incentivizes regional development with a focus on rural and economically disadvantaged areas. The TNECD also focuses on international business development through export services and the attraction of foreign direct investment, focusing on Japan, western Europe, South Korea, and China.

Tactics

In 2015, the state eliminated many of its business tax credits and expanded the state's FastTrack Grant Program, which received over $117 million in FY 2019 funding (Pew Charitable Trusts 2017e). In addition to this large grant program, the TNECD does continue to manage other tax incentives, the state's CDBG funds, and several other programs and services.

Tax Incentives and Grants

FastTrack Grant Program

The state's signature economic development program, FastTrack, consists of three separate grant programs, the Job Training Assistance Program, the Infrastructure Development Program, and the Economic Development Fund. All three of these programs are designed to incentivize the creation and expansion of businesses in the state, but they each take a slightly different approach.

Job Training Assistance Program

This program provides new and expanding companies with direct funds to "support the training of net new full-time employees" (TNECD 2018a). The amount of funding is related to level of job creation, wages paid, and capital investment.

Infrastructure Development Program

Local governments that receive grants through the Infrastructure Development program use them to fund public infrastructure projects that support new and expanding companies. The TNECD works directly with these local officials to identify water, sewer, rail, telecommunications, and other site improvements that will benefit a specific company investing and creating jobs in the area. Local communities must also provide matching funds.

Economic Development Fund

The Economic Development Fund component provides grants to local communities, which they use to reimburse a company for eligible spending that is not already covered by the other two FastTrack grants. These funds can offset investments in capital improvements, retrofitting, and even temporary office space or the relocation of equipment (TNECD 2016).

Job Tax Credit

The Job Tax Credit provides credits per job up to 50 percent of the company's franchise and excise tax liability. The TNECD has established a tiered system for incentivizing greater investment in more economically distressed areas. While all companies are required to meet a $500,000 capital investment requirement, job creation targets are set based on the county's tier. Also, while these credits last for 15 years in more developed areas, companies can claim credits for additional years if they invest in counties that are in the economically distressed tiers (TNECD 2016).

Other Tax Credits and Grants

The state also offers a 1 percent to 10 percent credit for the purchase, installation, and repair of industrial machinery. This Industrial Machinery Credit has different eligibility requirements for different industries, including manufacturing, warehousing, and call centers. While not as large as several other large general tax incentives, this credit did cost the state $62 million in FY 2017. Also, the design and use of this credit leaves the state with $790 million in rollover credits from previous years that can be claimed going forward (Sichko 2018).

The state also offers different sales tax exemptions, sales tax credits, and reduced sales tax rates for companies in certain sectors, including manufacturing, warehousing and distribution, call centers, data centers, and research and development.

Other Tactics

In addition to the above-mentioned credit and tax incentive programs, the TNECD also offers other economic and community development programs.

Export Assistance

The TNECD offers businesses operating in the state access to the Regional Export Network. The department provides free services to companies looking to increase their exports, including market and strategy reports, market entry recommendations and assistance, and trade and travel assistance. The TNECD has a global director of foreign direct investment and trade based in the U.S. and directors of business development operating in Japan, western Europe, South Korea, and China.

Community Development Block Grant

The TNECD administers the state's CDBG small-city funds. These resources are available to communities that are not receiving funds directly from the U.S. Department of Housing and Urban Development. While most of these funds are used for water and sewer projects, about $4 million is invested in community livability and commercial façade improvement grants (State of Tennessee 2018).

Tourism

The TDTD is focused on growing the state's brand, informed by its slogan of "The Soundtrack of America. Made in Tennessee," and is driving engagement on the state's tourism promotion websites and increasing visitation. The department works toward these goals by developing digital marketing campaigns, promoting the state's brand through traditional and social media, and offering tourism enhancements and marketing grants (TDTD 2018).

Organizational Structure and Staffing

The TNECD is funded to support 90 positions across seven divisions (Exhibits 1 and 3). The TDTD only has ten FTE staff members, but most of them are focused on economic development-related efforts. The staff includes directors of marketing, outreach and engagement, communications, and sales.

EXHIBIT 1. TNECD Structure and Services

Program Area	FTEs	Description
Leadership and Administrative Services	26	Manages executive, budget, fiscal, human resources, legal, internal audit, and information technology work.
Business Development	37	Administers programs that are focused on attracting and recruiting new investments and creating new jobs for Tennessee. The core business development team includes five business development directors, a director of tax, director of workforce development, tax information analyst, and project and business specialists. The FastTrack program is run by a separate four-person team that is part of this division. The Business Development division also has nine regional business directors and three business development consultants out in the field.

Program Area	FTEs	Description
Rural Development	16	Provides direct technical assistance to rural communities and manages community, economic, and downtown development programs and grants.
Communications and Marketing	8	Markets Tennessee to the world's business community, managing press relations, producing content, and managing conferences and events.
Strategy	2	Oversees the Business Enterprise Resource Office, the Center for Economic Research in Tennessee, Tennessee Trade, and the TNInvestCo project. The latter is a state-sponsored venture capital program that gives ten firms across the state the authority to manage proceeds from $200 million in tax credits.
Legislative Affairs	1	Leads external and legislative affairs and oversees the Tennessee Entertainment Commission, which administers the state's film production tax credits.

Source: Wilson 2016 and TNECD 2018

The TDTD is a relatively small operation made up of multiple teams leading different lines of work and special projects.

EXHIBIT 2. TDTD Staffing and Structure

Program Area	FTEs	Description
Leadership and Administration	10	Manages executive, fiscal, human resources, legal, procurement, and legislative relations work.
Marketing	6	Leads tourism marketing projects across multiple platforms. This team includes a social media manager and a graphic designer.
Outreach and Engagement	5	Coordinates community engagement-related tourism efforts. To lead these projects, the department places a division manager in three different geographic regions across the state (west, middle, and east).
Public Relations	3	Manages communications, content development, and public relations efforts for the department.
Retire TN and Adventure Tourism	1	Leads RetireReadyTN, a program aimed to promoting the state and its individual communities as a place to retire, and Adventure Tourism, which is a program that designates special districts as unique destinations for travel and exploration.
Welcome Centers	7	Manages 15 welcome centers spread out across the state. The team is broken into regions (southwest, west, middle, northeast, and southeast).

Source: TDTD 2019

Funding

In the governor's FY 2019 budget recommendation, the state estimates that 2 percent of all state funding is dedicated to economic development (Haslam 2018). Economic development was a clear priority of former Gov. Bill Haslam, resulting in significant investments in this area.

EXHIBIT 3. TNECD Funding

	FY 2017	FY 2018	FY 2019
Administrative Operations			
Administrative Services	$6,130,000	$6,220,800	$7,366,700
Total Administrative Operations	**$6,130,000**	**$6,220,800**	**$7,366,700**
Business Investment			
Business Development	$13,567,500	$35,711,300	$17,632,700
Innovation Programs	$200,000	$200,000	$200,000
Headquarter Relocation Assistance	$400,900	$400,900	$400,900
Economic Development District Grants	$2,010,100	$2,010,100	$2,030,100
FastTrack Infrastructure and Job Training Assistance	$81,233,900	$85,390,500	$117,340,500
Total Business Investment	**$97,412,400**	**$123,712,800**	**$137,604,200**
Community Vitality			
Policy and Federal Programs	$26,708,000	$28,946,500	$28,981,300
Community and Rural Development	$12,056,300	$23,934,300	$28,238,100
Community Livability (CDBG)	$3,425,600	$3,509,500	$3,400,000
Commercial Façade Improvements (CDBG)	$500,000	$500,000	$500,000
Total Community Vitality	**$42,689,900**	**$56,890,300**	**$61,119,400**
Total TNECD Appropriation	**$146,232,300**	**$186,823,900**	**$206,090,300**

Source: Analysis completed by PSC.

EXHIBIT 4. TDTD Funding

	FY 2017	FY 2018	FY 2019
Image			
Administration and Marketing (Including Marketing Task Force)	$35,744,300	$37,395,800	$48,609,700
Total Image	**$35,744,300**	**$37,395,800**	**$48,609,700**
Total TDTD Economic Development Appropriation	**$35,744,300**	**$37,395,800**	**$48,609,700**

Source: Analysis completed by PSC.

EXHIBIT 5. Total Tennessee Economic Development Funding

	FY 2017	FY 2018	FY 2019
Total State Economic Development Appropriations	**$181,976,600**	**$224,219,700**	**$254,700,000**

Source: State of Tennessee 2016; State of Tennessee 2017; State of Tennessee 2018

In addition to these appropriations, the state also provides tax credits and incentives, many of which have significant carryover from year to year. A recent report estimates that in addition to the state's $152 million dollars in credits given in FY 2017, the state owes nearly $1 billion in tax credits to businesses from previous years (Sichko 2018). The Jobs Tax Credit accounts for nearly $200 million, but the rest of the carryover credits are part of the Industrial Machinery Credit.

Evaluation

Tennessee has made compliance and evaluation a priority and has set up multiple platforms, laws, and regulations to ensure that residents and policymakers can consider the value of the state's economic development efforts.

In 2015, Tennessee approved legislation requiring evaluation of the state's major economic development tax credits every four years. The first evaluation report was published in December 2016 and included several positive and negative key findings. For example, the report noted that, on average, companies awarded the Jobs Tax Credit increased employment by 20 percent more than their peers during the first year, but that the effect was no longer statistically significant by year three. The analysis also estimated that from 2011–2014, the annual effect of this tax credit was an increase of 600 jobs, $46 million in earnings, and $45 million in output in the state (Anderson Economic Group et al. 2016). It also included recommendations for improving incentive programs and their management. One weakness of the state's law, however, is that it does not provide a clear connection between these regular evaluations and the policymaking process (Pew Charitable Trusts 2017e). While the evaluations must be presented to the governor and legislative leaders, there is no requirement for hearings or other actions.

In addition, Tennessee was one of only a handful of states, including Michigan, that was chosen to participate in a Business Incentives Initiative led by the Pew Charitable Trusts and the Center for Regional Economic Competitiveness (CREC). This partnership granted Pew and CREC in-depth access to their economic development oversight and management procedures. As part of this initiative, these national organizations identified Tennessee's due diligence processes, coordination among agencies, and open data policies as best practices for other states to consider implementing (Pew Charitable Trusts 2016). The TNECD's teamwork on reporting and evaluation of tax incentive data with the DOR was also highlighted as an example of the improved clarity that cross-agency collaboration can produce.

In terms of evaluation on tourism in Tennessee, the TDTD produces annual reports that include economic impact analyses to estimate the benefits of increased travel to the state. For example, in its FY 2018 report, the TDTD highlighted its 6.3 percent increase in travel expenditures, 3.1 percent increase in travel-related employment, and its 7.6 percent increase in travel-related state tax revenues, all of which are higher than the national growth averages (TDTD 2018). The department posts performance data, databases listing grant and tax credit recipients, and economic impact analyses on Transparent Tennessee, the state's open-government website.

Texas

Overview

Texas supports economic development through two organizations—the Governor's Office of Economic Development and Tourism (EDT) and the Texas Economic Development Corporation (TxEDC). The EDT manages the programs and incentives that support economic development in Texas, including the state's flagship incentive program, the Texas Enterprise Fund (TEF). The TxEDC is a private, nonprofit corporation that focuses on promoting and marketing Texas nationally and abroad. The EDT and TxEDC are both focused on supporting economic development in Texas, and they work together to achieve these goals. Separate from EDT and TxEDC, The Texas Department of Agriculture also provides economic development support to the agricultural industry and businesses in Texas

Strategic Focus

The primary EDO in Texas, the EDT, is charged with coordinating all economic development efforts in the state. A governor-appointed executive director leads the EDT, and the office and its programs are funded by state and federal dollars. Per Texas Government Code 551.087 and 552.131, the EDT is often exempt from disclosing information regarding economic development meetings, making it comparable to private EDOs in practice. It has six key functions:

- Market and promote the state as a premier business location and tourist destination
- Facilitate the location, expansion, and retention of domestic and international business investment to the state
- Promote and administer business and community economic development programs and services in the state, including business incentive programs
- Assist businesses and communities with exporting products and services to international markets
- Serve as a central source of economic research and information
- Establish a statewide strategy to address economic growth and quality of life issues, a component of which is based on the identification and development of industry clusters

The TxEDC is the public-facing EDO in Texas, officially created as a Texas nonprofit corporation in 1991, and is recognized as a 501(c)(3) charitable organization (TxEDC n.d.). As a private nonprofit corporation, it is not subject to the same transparency guidelines as most government departments, including the requirements for open meetings and public information, which are both exempt from public record in Texas. The TxEDC promotes economic development through a four-part strategy:

- **Statewide business network:** The TxEDC is leveraging members of their board of directors to build a network of business leaders across the state.

- **Global marketing:** The TxEDC markets Texas globally through industry events, media relations, advertising, and other initiatives.

- **Trade visits:** The TxEDC leads national and international trade visits to market Texas in the other states in the U.S. as well as other countries around the world.

- **Special projects:** The TxEDC provides assistance to the governor on three strategic areas: broadband, education, and health sciences. (TxEDC n.d.)

The Texas Department of Agriculture Division of Trade and Business Development also provides economic development support to the agricultural industry and businesses in Texas through three offices:

- **Office of Rural Affairs:** The Office of Rural Affairs focuses on enhancing the economic vitality and quality of life in rural Texas, providing rural communities the tools needed to attract and retain businesses, expand and improve public infrastructure, and secure quality healthcare.

- **Marketing and International Trade:** Marketing and International Trade promotes Texas agriculture, businesses, and communities on the state, national, and international levels.

- **Grants Office:** The Grants Office administers state and federal grants, loans, and cooperative agreements to farmers, ranchers, universities, schools, nonprofits, and private entities across Texas.

Audience Segmentation

Texas focuses on six target industry sectors, as identified by TxEDC, choosing these sectors out of a desire to "streamline economic growth and development strategies," according to Robert Allen, CEO of the TxEDC. Allen stated, "By focusing on six areas with the greatest growth potential, Texas is able to aid in the creation of industry clusters which help to foster collaboration between companies, champion new innovations, and build extensive talent hubs" (Site Selection 2018). These six sectors are:

- Advanced technology and manufacturing
- Aerospace/aviation and defense
- Biotechnology and life sciences
- Information and computer technology
- Petroleum refining and chemical products
- Energy

The EDT also structures the state into six geographic regions that encompass the state's largest metropolitan areas (TxEDC n.d.). They are:

- **Central Texas:** Austin-Round Rock, Killeen-Temple, and Waco
- **East Texas:** Longview, Texarkana, Tyler, and Texas Forest Country Region
- **Gulf Coast Texas:** Beaumont-Port Arthur, College Station-Bryan, and Houston-The Woodlands-Sugar Land
- **North Texas:** Dallas-Irving-Plano, Fort Worth-Arlington, and Sherman-Denison
- **South Texas:** Brownsville-Harlingen, Corpus Christi, Laredo, McAllen-Edinburg-Mission, San Antonio-New Braunfels, and Victoria
- **West Texas:** Abilene, Amarillo, El Paso, Lubbock, Midland, Odessa, San Angelo, and Wichita Falls

The State of Texas also operates a State of Texas Mexico Office that serves as a link between the business communities in Mexico and Texas, and it provides trade and market research assistance to Texas and international companies.

Tactics

Texas has a number of incentive programs to support business development, with a focus on Investment Funds, led by the Texas Enterprise Fund, as well as Tax Incentives and other tactics (Office of the Governor 2016).

Investment Funds

Texas Enterprise Fund

Texas' flagship incentive program, the Texas Enterprise Fund, awards grants to companies considering a new project in Texas. The program is for the purpose of "deal closing," and the governor, lieutenant governor, and the Speaker of the House of Representatives must all approve the use of the TEF.[7] Awards range from $1,000 to $10,000 per job created. Texas recently earned headlines for securing a $1 billion new headquarters for Apple that will bring 5,000 new jobs to the state, and while the overall incentives used to finalize the deal are not public, *Statesman* reported that Texas provided $25 million in grants from the TEF to close the deal (Sechler 2018).

Skills Development Fund

The Skills Development Fund supports job training partnerships between companies and colleges and is administered by the Texas Workforce Commission outside of the EDT. The average training program costs $1,800 per trainee.

Event Trust Funds Program

The Event Trust Funds Program is composed of three programs—the Events Trust Fund, Major Events Reimbursement Program, and Motor Sports Racing Trust Fund—targeted at attracting events to Texas by helping communities organize and pay for event expenses through projected gains in local and state taxes.

Texas Capital Fund Infrastructure Development Program and Texas Capital Fund Real Estate Development Program

The purpose of the Texas Capital Fund Infrastructure Development Program helps communities develop public infrastructure, including water, sewer, and roads, to support businesses in potentially creating jobs for low- to moderate-income residents. The Real Estate Development Program provides a similar incentive for real estate acquisition, construction, and rehabilitation.

Texas Leverage Fund

The Texas Leverage Fund provides a source of financing to economic development corporations across Texas for the purpose of supporting business expansion and recruitment projects. Communities are able to leverage future sales tax revenue to secure low-interest loans from between $25,000 to $5 million.

Product Development and Small Business Incubator Fund

The Product Development and Small Business Incubator Fund is a revolving loan program financed through bond issuances to support small businesses in the state with low-cost capital. Loan proceeds can be used for property, plants, and equipment, and the loans are limited to businesses that have been in Texas for at least three years.

Tax Incentives

Texas Enterprise Zone Program

Texas designates up to 105 enterprise projects every two years. Once designated an enterprise project, businesses are eligible for a refund on all sales and use taxes. The total amount can range between $2,500 and $7,500 per new job created.

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[7] Texas has prioritized the use of the TEF for "deal closing," meaning that the fund is a final incentive tool only when a single Texas community is competing with another viable out-of-state option.

Franchise Tax Exemption and Deduction for Business Relocation
Companies relocating their principle place of business from outside Texas to the state can deduct their moving expenses from their state tax liability.

Other Tactics

Governor's University Research Initiative
This program supports Texas colleges and universities in recruiting talented researchers by providing additional funding to support higher compensation.

Texas Moving Image Industry Incentive Program
Administered by the Texas Film Commission under the EDT, the incentive program provides a cash production grant from 5 percent to 22.5 percent of qualified in-state spending. The grant applies to both live-action and animated projects, and it can be applied to films as well as video games.

Community Development Block Grant Program for Rural Texas
Administered by the Texas Department of Agriculture, this program supports community development in rural agricultural communities.

Organizational Structure and Staffing

From a staff perspective, the EDT, TxEDC, and Department of Agriculture maintain very different footprints. Texas EDT is the lead EDO, operating out of the Governor's Office, with 95 total FTEs focused on business development, business assistance, research and economic analysis, and finance, with other staff dedicated to military preparedness, workforce, tourism, film, and music. TxEDC stands apart, with five FTEs dedicated to promoting the state nationally and internationally. The Department of Agriculture has two primary offices, the Office of Trade and Economic Development (32.2) and Rural Community Development (36.7), which focus on agricultural business development and community development in rural areas. They are organized as follows:

EXHIBIT 1. TxEDC Structure and Services

Division	FTEs	Description
TxEDC	5	Leads efforts to promote and market Texas at home and abroad.

Source: Analysis completed by PSC.

EXHIBIT 2. EDT Structure and Services

Division	FTEs	Description
Executive	4	Leadership of the EDT.
Department of Strategic Business Development	12	Focuses on business development, identifies and develops both domestic and international investment leads, and works with companies interested in locating or expanding in Texas. Works with the TxEDC to promote and market Texas.

Division	FTEs	Description
Department of Business Assistance	10	Promotes international trade; works with small businesses and entrepreneurs; engages industry; and assists with permitting, licensing, and regulatory compliance. Hosts the State of Texas Mexico Office and the Office of Aerospace, Aviation, and Defense, which promote relationships and investment between Mexico and the aviation industry, respectively.
Department of Research and Economic Analysis	4	Plans, coordinates, and conducts economic studies and analyses and distributes these findings to other government departments and businesses in the state.
Office of Economic Development Finance	7	Manages programs to support business expansion and relocation, including grants, financing, and tax refund programs that support economic development, job creation, and capital investment.
Texas Military Preparedness Commission	2	Works to preserve, protect, expand, and attract new military missions, assets, and installations.
Travel Texas	12	Promotes travel to Texas in both the domestic and international tourism marketing arenas.
Texas Workforce Investment Council	11	Assists the governor and legislature with strategic planning for and evaluation of the Texas workforce system in partnership with the eight other agencies responsible for workforce in Texas.
Texas Film Commission	11	Connects the film industry to Texas' locations, workforce, support services, industry organizations, and production incentives.
Texas Music Office	3	Serves as a liaison between music businesses and government offices and agencies. Shares information related to the industry, publicizes significant developments within the industry, and works to support and attract the music industry to Texas.
Other/Unidentified	19	This category represents the difference between the publicly available total FTE positions for the EDT and the publicly available totals by office.
Department of Agriculture		
Trade and Economic Development	32.2	Supports the agriculture industry in Texas.
Rural Community Development	36.7	Administers CDBG of rural Texas program.

Source: Analysis completed by PSC.

From a governance perspective, the EDT is managed by the Governor's Office. TxEDC is led by a board of directors composed of business leaders, economic developers, and academic representatives and the Texas governor appoints the board (TxEDC n.d.).

Funding

Texas Economic Development Corporation

The TxEDC receives its funding from private contributions and membership donations. It does not accept public funding. In FY 2017, the TxEDC received $3.6 million from contributions, with leading investors, including the Texas Medical Center, the McLane Group (logistics), and Wipro (IT services). FY 2017 expenditures were $2.6 million (TxEDC n.d.). Exhibit 3 provides additional detail on the revenues and expenditures.

EXHIBIT 3. TxEDC Revenue and Expenditures FY 2017

Item	FY 2017 Revenues and Expenditures
Revenue and Support	
Contributions	$3,617,777
In-kind Contributions	$432
Participation Fees	$25,000
Other Revenue	$32,743
Investment Income	$1,225
Total Revenue and Support	**$3,677,177**
Expenditures	
Recruitment Activities	$1,245,647
Advertising and Marketing	$1,038,141
Administrative	$53,547
Operating Expenses	$164,894
Professional Services	$179,807
Total Expenditures	**$2,682,036**

Source: TxEDC 2017

Governor's Office of Economic Development and Tourism

The EDT's budget is significantly larger than the TxEDC's, reaching $255 million in 2018. This is a return to 2016's high level of funding at $262 million after 2017 saw a decrease to $125 million to address decreased revenues from the oil and gas industry, with the majority of cuts coming to the TEF. Exhibit 4 captures overall economic development funding in Texas, which includes both the TxEDC and the EDT, as aligned with the key categories of business investment, community vitality, image, administration, and arts and film as delineated by the MEDC. Texas does not break out its budget by projects, so funding is allocated to business development incentives and services based on grants and salary estimates.

EXHIBIT 4. Texas Economic Development Funding

Item	FY 2017	FY 2018	FY 2019
Business Investment			
Entrepreneurship and Innovation	$1,040,607	$1,429,300	$1,429,300
Access to Capital	$21,954,877	$9,997,798	$9,997,798
Business Development Incentives	$85,055,896	$44,004,743	$488,742
Business Development Services	$8,691,185	$5,005,272	$5,005,271
International Trade	Included elsewhere	Included elsewhere	Included elsewhere
Total Business Investment	**$116,742,565**	**$60,437,113**	**$16,921,111**
Community Vitality			
Community Development Incentives	$62,914,845	$62,400,032	$62,400,032

Item	FY 2017	FY 2018	FY 2019
Community Development Services	$10,904,471	$11,140,476	$11,179,680
Total Community Vitality	**$73,819,316**	**$73,540,508**	**$73,579,712**
Image			
Travel and Tourism	$35,396,508	$35,292,357	$34,779,883
Business Marketing	$2,682,038	$2,682,038	$2,682,038
Public Relations	Included elsewhere	Included elsewhere	Included elsewhere
Total Image	**$38,078,546**	**$37,974,395**	**$37,461,921**
Administrative Operations			
Total Administrative Operations	**Included elsewhere**	**Included elsewhere**	**Included elsewhere**
Arts and Film			
Total Arts and Film	**$26,201,967**	**$7,813,679**	**$2,174,002**
Total Economic Development Spending	**$254,842,394**	**$179,765,695**	**$130,136,746**

Source: State of Texas n.d.c
Note: The TxEDC's budget is included under the business marketing line item, and 2018 expenses and 2019 budget are based on 2017 expenses.

Evaluation

The EDT reports on various metrics as part of their annual budgets. In the 2018 operating budget, the EDT provided the following metrics:

- Number of new jobs announced by businesses receiving assistance
- Capital investment by projects receiving assistance
- Number of domestic leisure travelers to Texas destinations (in millions)
- In-state film/TV/commercial/video game production expenditures (industry spending in Texas)
- Number of jobs announced by companies receiving enterprise fund grants (Office of the Governor 2017)

Texas officials cite a number of measures as evidence of the effectiveness of their economic development approach. *Forbes* ranked Texas the top state for economic climate; *Site Selection* magazine has awarded Texas with the Governor's Cup for six years in a row for having the most new and expanded facilities per capita; *Business Facilities* magazine ranked Texas first for business climate, first for export leadership, and as having the best infrastructure; and *Chief Executive* magazine has named Texas the Best State for Business for 13 years in a row.

The Pew Charitable Trusts identified Texas as "making progress" in a study of how states evaluate the effectiveness of tax incentives. In 2015, Texas created the Economic Incentive Oversight Board to evaluate incentives. However, there remain no clear publicly available measures evaluating the effectiveness of Texas' incentive programs in recruiting businesses to the state (Pew Charitable Trusts 2017f).

Wisconsin

Overview

The Wisconsin Economic Development Corporation (WEDC) serves as the state's lead EDO. This public-private entity is funded primarily with state funds and offers resources; operational support; and financial assistance to companies, communities, and a wide range of partners, including regional EDOs, academic institutions, and industry clusters (WEDC 2018a). Prior its creation, these efforts were led by the Department of Commerce, which was closed when the WEDC was created in 2011.

This relatively recent shift in approach has made economic development a high-profile political issue in the state and policymakers continue to debate the merits of the current system, as opposed to the previous state-agency-driven model. The State recently approved changes to the WEDC during the lame-duck session, but observers expect this debate to continue when the new governor is sworn in.

While WEDC serves as the state's main EDO, several other departments fund and support economic development, including the Department of Administration (DOA), which administers the state's CDBG, and the Department of Tourism, which leads tourism promotion, marketing, and several small grant programs.

Strategic Focus

The WEDC's mission is to advance strategies that will help businesses, communities, and people thrive, which will, in turn, improve quality of life and ensure long-term economic prosperity for all state residents. To achieve this vision, the WEDC has developed key catalysts for growth, organized into the following strategic pillars:

- Strategic economic competitiveness
- Business development
- Community and economic opportunity
- Brand development and strategy
- Operational and fiscal excellence (WEDC 2018a)

In addition to developing a mission, vision, and strategic organizational model, the WEDC also partners with regional EDOs, providing administrative and marketing activities for nine of them, including several large organizations such as Milwaukee 7 and the Madison Region Economic Partnership. The WEDC supports other strategic partners as well, including the Minority Chambers of Commerce, the Wisconsin Center for Manufacturing and Productivity, the Wisconsin Technology Council, and a global network of authorized trade representatives.

Audience Segmentation

While there are general business and job development incentives, many of the WEDC's credits, taxes, and loan programs target funds and assistance to the manufacturing and technology sectors. The WEDC maintains a list of key state industries, including:

- Aerospace manufacturing
- Biohealth
- Energy, power, and control
- Food and beverage
- Forest products
- Manufacturing

- Water technology

Tactics

Wisconsin's economic development tools include tax incentives, community grants, opportunity zones, and business development programs and services.

Tax Incentives and Grants

Electronics and Information Technology Manufacturing Zone

Of the WEDC's self-reported $3 billion in economic development investments in FY 2018, $2.85 billion was awarded to Foxconn, a multinational electronics production company, through the Electronics and Information Technology Manufacturing Zone (EITMZ). The deal was for the company to invest $10 billion in a 21.5 million square foot facility that would create 13,000 jobs. Outbidding other states and securing this investment was a major strategic priority for government leadership and the WEDC. The Legislative Fiscal Bureau (LFB) estimates that the total incentive package is actually closer to $4.5 billion when including infrastructure projects, grants, and tax incentives (Hintz 2018).

EXHIBIT 1. Foxconn Incentives and Projects, Estimated

State, Local, and Ratepayer Costs	Amount
State Tax Credits	$2,850,000,000
Local Government Assistance	$764,000,000
Expedited I-94 Projects (Plus Debt Service)	$408,300,000
Utility Costs	$140,000,000
Sales and Use Tax Exemption	$139,000,000
State and Local Road Improvements	$134,000,000
Department of Workforce Development Worker Training and Employment	$20,000,000
Grants to Local Governments	$15,000,000
Economic Development Liaison	$400,000
Total Incentive Package	**$4,470,700,000**

Source: Hintz 2018

This is considered the largest incentive for a foreign corporation in American history (Kaufman 2018). While Foxconn maintains its commitment to create 13,000 jobs, recent reports suggest that the company has shifted its plans to build a plant that would only need 3,000 workers, with automated robots doing most of the assembly work (Kaufman 2018).

Enterprise Zone Program

The WEDC's Enterprise Zone Program, which is designed to incent both the expansion of existing Wisconsin businesses and the relocation of major businesses into the state, provides credits for job creation, retention, training, and capital investment. The state awarded $104.5 million in credits through this program and reported that it created 1,273 jobs and retained another 4,352 (WEDC 2018a).

Community Development Investment Grant

To incent downtown community development in the state, the WEDC supports urban, small-city, and rural development through financial incentives for "shovel-ready projects" (WEDC 2018a). While this is a relatively small program for the state, with funding for only $5.6 million in grants for renovation, infrastructure, and new construction projects, this credit is an example of the WEDC's community development efforts.

Other Tactics

In addition to the above-mentioned programs and credits, the WEDC also offers many other smaller economic and community development programs, including brownfield, capacity building, and workforce training grants and various loan, bonding, and development programs. In addition, Wisconsin uses the following tactics when implementing its strategic vision.

Qualified New Business Venture

The WEDC offers a range of programs designed to support entrepreneurs and provide access to capital. For example, the Qualified New Business Venture program offers eligible angel and venture funds that invest in early-stage businesses the option to claim an income tax credit on 25 percent of their investment. While this program was funded to support $30 million in credits, only $15 million was accessed during FY 2018 (WEDC 2018a).

International Business Development

The WEDC's work within its International Business Development area consists of the ExporTech™, Global Trade Ventures, and the Global Business Development grants programs. The grant programs provide $1.2 million in grants and export development strategy support to manufacturing, processing, and distribution companies across the state. However, the investments in this area are small when compared to the WEDC's business and community development initiatives.

Community Development Block Grant

The DOA, specifically its Division of Energy, Housing, and Community Resources (DEHCR), manages the CDBG program and made targeted investments in a variety of programs, including several that are designed to expand economic opportunity in the state. The CDBG Economic Development Program awards funds to local governments to support businesses that are creating and retaining jobs for residents with low and moderate incomes. These funds have supported business loans to expand facilities, upgrade equipment, and train employees. The state uses the repayments from the businesses to finance additional loans to other businesses. The DEHCR also provides local governments with grants to fund public infrastructure projects that will support business expansion and retention through the CDBG Public Facilities Economic Development program.

Organizational Structure and Staffing

Before changes were made during the lame-duck session, the WEDC was governed by a 14-member board with 12 voting members. Former Gov. Scott Walker recently signed legislation that will temporarily grow the board to 16 voting members and transition the authority for selecting the CEO from the governor to the board until September 2019. At that time the number of voting members will drop back to 14 and the governor will regain authority to choose the CEO.

The WEDC has 121 positions, including administrative, financial, legal, human resources, credit and risk, marketing and brand strategy, and public policy staff (WEDC 2018b). The WEDC's programming divisions align with its program areas (first outlined in Exhibit 1), each led by a vice president.

EXHIBIT 2. WEDC Structure and Services

Program Area	FTEs	Description
Business and Community Development	23	Manages brownfield, site revitalization, capacity, and development grant programs, as well as opportunity zones, tax credits, and loan funds. This area has two senior economic development directors which manage 12 regional economic development directors out in the field. The division also includes four regional downtown development staff and a director of minority and small-business development.
Business and Investment Attraction	6	Engages with prospective businesses and cultivates relationships with key decision makers to make the case for how Wisconsin can meet companies' unique needs. This team recruits companies, tailors Wisconsin resources and services to meet company needs, and develops competitive incentive packages to recruit and retain businesses.
Entrepreneurship and Innovation	5	An entrepreneurship programs director manages a team of technology innovation staff members who run the state's capital access, seed accelerator, and early-stage business programs. This team also provides entrepreneurial support and offers microgrants, loans, and matching funds.
International Business Development	9	Includes multiple market and international business directors, grant managers, and a procurement officer that administer the WEDC's global business development, trade venture, and export support programs.
Sector Strategy Development	9	Five directors manage a small staff that leads sector strategy development and administers the targeted industries and fabrication laboratory programs.

Source: WEDC 2018b

The state's Department of Tourism has 23 staff members working across administrative, marketing, and promotion areas. The agency has four positions that are focused on managing grants for regional tourist information centers.

Funding

According to an audit completed in 2017, which reviewed programs and services offered during FY 2015–2016, WEDC offered "34 economic development programs through which it provided an estimated $133 million in tax credits to businesses and individuals; awarded $21.5 million in grants and $17.3 million in loans to businesses, local governments, and other organizations; and authorized local governments to issue $17.4 million in bonds" (Chrisman 2017). In FY 2017, the WEDC estimated that it invested $320 million in economic development programs, which includes bonds, grants, loans, and tax credits, but in its FY 2018 annual report, that figure climbed to over $3 billion due to the investment in the EITMZ.

EXHIBIT 3. WEDC Program Activity, Including Tax Incentives

Program Type	FY 2017	FY 2018	Percentage Change
Tax Credits	$213,700,708	$197,658,000	-8%
Bonds	$43,271,681	$65,734,780	52%
Grants	$27,439,807	$25,606,691	7%
Investor Credits	$22,986,250	$14,937,500	-35%
Loans	$13,353,300	$4,512,500	-66%
EITMZ	N/A	$2,850,000,000	N/A
Total Program Activity	**$320,751,746**	**$3,158,499,471**	**885%**

Source: WEDC 2018a

The WEDC's budget allocation from the legislature is less descriptive, with funding broken down into only a few categories. The WEDC receives most of the state's economic development appropriations, but the DOA's role in the management of CDBG funds and the Department of Tourism's marketing and promotion work are also key components of the state's overall economic development approach.

EXHIBIT 4. WEDC Appropriations, FY 2017–2019

	FY 2017	FY 2018	FY 2019
Administrative Operations			
Operations and Programs	$12,474,700	$1,519,500	$16,512,500
Total Administrative Operations	**$12,474,700**	**$1,519,500**	**$16,512,500**
Business Investment			
Economic Development Fund	$21,776,000	$32,731,200	$24,038,200
Total Business Investment	**$21,776,000**	**$32,731,200**	**$24,038,200**
Community Vitality			
Brownfield Site Assessment Grants	$1,000,000	$1,000,000	$1,000,000
Total Community Vitality	**$1,000,000**	**$1,000,000**	**$1,000,000**
Total WEDC Appropriation	**$35,250,700**	**$35,250,700**	**$41,550,700**

Source: State of Wisconsin 2017

EXHIBIT 5. DOA DEHCR Appropriations, FY 2017–2019

DOA DEHCR	FY 2017	FY 2018	FY 2019
Administrative Operations			
Total Administrative Operations	**$867,500**	**$884,200**	**$886,200**
Community Vitality			
Federal Aid, Local Assistance	$10,000,000	$10,000,000	$10,000,000
Total Community Vitality	**$10,000,000**	**$10,000,000**	**$10,000,000**
Total DOA DEHCR Economic Development Appropriation	**$10,867,500**	**$10,884,200**	**$10,886,200**

Source: State of Wisconsin 2017

EXHIBIT 6. Wisconsin Department of Tourism, FY 2017–2019

Wisconsin Department of Tourism	FY 2017	FY 2018	FY 2019
Administrative Operations			
Total Administrative Operations	**$2,860,000**	**$2,464,600**	**$2,506,500**
Image			
Tourism Marketing (General Purpose, Gaming, and Transportation Funding)	$12,385,600	$12,468,100	$12,385,600
Tourism Promotion—Private and Public Sources	N/A	$99,000	$99,000
Grants for Regional Tourist Information Centers	$160,000	$160,000	$160,000
Total Department of Tourism Economic Development Appropriation	**$15,405,600**	**$15,191,700**	**$15,151,100**

Source: State of Wisconsin 2017

EXHIBIT 7. Wisconsin Economic Development Appropriations, FY 2017–2019

	FY 2017	FY 2018	FY 2019
Total Economic Development Appropriation	**$61,523,800**	**$61,326,600**	**$67,588,000**

Source: State of Wisconsin 2017

Evaluation

The WEDC estimates that its $3.2 billion in incentives, programs, and services in FY 2018 has leveraged another $9.3 billion in capital investment from other sources. This match ratio of four to one is below the WEDC's goal of eight to one, which may be due to the Foxconn project. Without taking this project into account, the ratio is estimated at 11:1 and in FY 2017, pre-Foxconn project, it was nine to one (WEDC 2018a). Another key metric for the WEDC is job impact, which combines jobs created and retained. In FY 2018 the jobs-impacted goal jumped by 13,000 because of the Foxconn project, but the WEDC estimates that it still exceeded its goal by creating an additional 4,912 jobs and retaining another 12,915. Lastly, the WEDC estimates that three out of every five of its job creation projects will produce a positive return on investment within four years and that the WEDC's total investment in FY 2018 will generate up to $63 million in annual state tax revenue (WEDC 2018a).

The LFB and the Legislative Audit Bureau (LAB) play a significant role in evaluating the operations and performance of the WEDC. The LFB, a nonpartisan legislative research and analysis agency, estimates that at the earliest, taxpayers should not expect to see a return on the Foxconn investment until 2042 (Lang 2017). In the legislation that created the WEDC, the LAB was charged with regularly evaluating the corporation. In annual audits from 2012 to 2015, the LAB found significant issues throughout the WEDC's operation and management of incentive programs (Pew Charitable Trusts 2017c). Throughout its 2015 audit, the LAB found that the WEDC was not following and not requiring contracted companies to follow state law and policy and also documented a lack of consistency in the WEDC's evaluation of its recipients' compliance with incentive requirements (Chrisman 2015). After several years of negative audit findings, the WEDC showed some signs of grant and loan administration improvement in its 2017 audit, but the LAB continued to highlight significant issues that must be addressed (Chrisman 2017). The lack of program administration and financial management consistency combined with the controversial and expensive Foxconn project, have put the WEDC's future in doubt.

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