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Economic Development Frequently Asked Questions

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Economic Development is at best a fussy term. Those of us who work and volunteer in the effort know what it is. But there are always those questions. Many times we struggle to answer them in a way that helps people to understand why economic development activity is important to our communities, our region and to them personally.

Economic Development *the creation of income.*

Tax Base *— The value of wages, sales of retail goods/services, profits and property that provide sales and property tax revenues to pay for all services provided by the various levels of government including school districts*

Priorities of Economic Development:

- *existing business and industry*
- *Recruiting of new business*
- *Assisting entrepreneurs with start up business*

"The role of government (at all levels) is to create private capital and creates jobs."

—Dr. David Sampson, Assistant Secretary of Commerce for Economic Development

Q. What is economic development?

A. Economic development is the creation of income. Creating jobs and career options for all ages and education level helps communities grow and provides opportunities for young people to remain in or move to our communities and our state. Quality, well paying jobs is the goal of economic development efforts.

This job creation is accomplished with the assistance of economic development organizations working in cooperation with private industry and through partnerships of local, state, and federal government programs.

Q. Why do communities and states engage in economic development?

A. Because circumstances change. The economy changes and cycles, companies go out of business or change product lines, products themselves go out of use and new products come into use. Companies grow, expand and sometimes fail or move operations "off shore". Economic development is the effort to keep communities viable through the inevitable changes we face year to year and generation to generation.

Q. What do you mean by "tax base"?

A. Tax base is the value of wages, sales of retail goods and services, profits and property that provide sales and property tax revenues to pay for all services provided by the various levels of government including school districts. The fewer people you have earning wages, buying homes, and spending for food, clothes, etc...the lower the value of the tax base and the larger share each of us has to pay for services (i.e. schools, public safety, sewer and water etc…) More people creating businesses, earning wages, buying homes, etc…, means a higher value tax base and each person's individual share of the cost of services is less.

Q. What are the priorities of the local/regional economic development?

A. Generally, local and regional economic development focuses on three priorities, existing business and industry, recruiting of new business through target marketing an assisting entrepreneurs with start up businesses. Good communities are the basis for economic development and are the product we sell. Without communities that are good places to live, that provide good schools and other quality of life amenities economic development programs cannot succeed.

Q. Why a regional approach to economic development??

A. The communities making up the region are economically inter-dependant. An economic development project providing jobs in the any community helps the entire region. By working together local and state governments, utility companies and economic development groups pool resources, and share talent and be competitive.

Additionally, there is a new development in Federal government economic development policy that favors self-defined economic development regions. It is more important that communities in regional micro-economic development efforts.

Q. What defines an economic Development Region?

A. The regions are defined by the commuting patterns and retail markets resulting in a geographic profile of the micro-economic region. Groups of communities make up micro-economic regions. Usually there is one primary community providing a critical mass of economic activity. The primary and outlying communities are linked together by job opportunities, health services, and retail shopping. Larger regions, portions of states or groups of states are defined by economic similarities or dependencies on specific

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Multiplier Effect: *Refers to payroll dollars paid by employers to employees spent locally for goods and services and how those dollars move through the community*

Performance based incentives: *Require businesses to make a financial commitment in Nebraska, before receiving economic benefits*

Target Marketing: *The systematic determination of specific industry sectors that are fit of any community region based on the resources of the area, labor skill sets and need for economic diversification.*

Industrial sectors. i.e. The Upper Midwest Agricultural Region , Industrial Northeast, etc…

Q. What is meant by the term "multiplier effect?

A. The "multiplier effect" refers to payroll dollars paid by employers to employees spent locally for goods and services and how those dollars move through the community. Example: an employee spends for rent or mortgage, groceries, clothing, hair care, childcare, car payment, etc.. Each of those businesses pays their employees and their cost of doing business from the cash they receive from their customer. Their employees then spend for the goods and services. The multiplier effect is the number of times the original dollars are spent in the community for goods and services before leaving the community.

Q. What are performance-based incentives?

A. Performance-based incentive programs require businesses to make a financial commitment in Nebraska, before they receive economic benefits. For example, a business must commit to creating jobs and investment in the community before they can receive any state benefits from the **Nebraska Advantage Act**. Incentives are designed to assist

Companies with specific business costs such as job training, equipment, and land purchases. Some levels of the program provide limited tax relief. **Nebraska incentives are only given after a business has made a commitment to begin or expand operations and has created jobs in the state.**

Q. What is "Target Marketing"?

A. Target marketing in economic development is the systematic determination of specific industry sectors that are fit for any community region based on the resources of the area, labor skill sets and need for economic diversification.

Q. What competitive advantages does Nebraska have?

A. Nebraska is attractive to companies for a variety of reasons including our hardworking, well educated workforce, low real estate, and utility costs, excellent infrastructure and mid-continental location. Companies also like Nebraska because of our commitment to education. The University of Nebraska is a nationally recognized research institution and the state has one of the best public and private school systems.

Q. Why does Nebraska need economic development incentives?

A. In the mid-1980's, Nebraska's economy and tax base were stagnant. The state's unemployment rate was nearly double what it is today and the manufacturing jobs were shrinking. Surrounding states were offering (and are offering) businesses financial incentives for businesses to relocate to their states. Not having incentives left Nebraska at a competitive disadvantage.

The Nebraska Legislature recognized the need to be nationally competitive in recruiting new business and retaining the existing employment and tax base. In 1987, the Legislature passed a **performance-based economic development incentive program**. The goal was, and still is, to promote the creation of good paying jobs in manufacturing, information and other economic sectors. The program was updated with the passage of Nebraska Advantage in 2005.

Q. Do many other states have incentives?

A. Each state offers some kind. Everything from outright grants to the abatement of local property taxes is on the table. Many states simply hand out tax incentives to businesses without any performance guarantee to encourage them to locate in their state.

Nebraska's performance-based system Holds companies to the job and pay levels in their incentive agreement. It rewards companies for being successful, growing and providing additional jobs. That concept fits right in the entrepreneurial spirit of many Nebraska business owners.

Q. How many new jobs were created in Nebraska because of the incentives?

A. According to records filed with the State Revenue Department since 2005, more than 4,567 new jobs have been created since the inception of the incentive program in 2005 with a qualified investment of $12.3 million and another $4.4 million planned. **These jobs are not just in our largest communities, but in more than 76 communities, small and large, throughout Nebraska**. In addition, this does not take into account the millions of dollars these employees have spent buying homes, shopping our stores, and paying taxes (the multiplier effect).

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Nebraska has invested $15 billion in the state as of 2004, companies received or will receive about $140 million in incentives!

Nebraska has created more than 4567 new jobs since the inception of the incentive program in 2005!

Incentives may be more beneficial for smaller communities! Norfolk, Columbus, Kearney, North Platte, Plainview, Beatrice, Aurora, Sidney, York and other small communities have created thousands of jobs and millions in investments as a result of the Incentive programs!!

Q. How much had the state invested in economic development?

A. As a result of the incentives businesses have invested more than $15 billion in the State (2004) these companies received or will receive about $140 million in incentives.

Again, incentives are only given to companies **AFTER** they have created the jobs and invested millions of dollars into the state's economy. Since the inception of the program, the state has invested just over a billion dollars for a $15 billion return. A return on investment that is good in any market.

Q. Regardless of incentives, would not most of the these jobs been created anyway?

A. Certainly a percentage of these jobs would have been created. However, Nebraska could simply not compete with other states without these incentives and thousands of jobs would have been at risk. The program has been directly responsible for creating thousands of jobs across the state, keeping jobs in the state and helping to improve the state's economy. Another role of economic development is to assist companies through the expansion or relocation process.

Q. Why shouldn't business just pay their fair share, rather than receive tax breaks?

A. The competition between states and countries world wide to recruit businesses and create jobs is extremely intense. Nebraska must have incentives to remain competitive not only to recruit new jobs but to also keep existing businesses in Nebraska and help them grow. When competing states have equal locations based on sound business reasons, experience shows that the location with the weakest incentive package will lose the opportunity. A strong program of strategic incentives makes projects happen that otherwise would not be possible.

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Historically, Nebraska was built on incentives. The Homestead Act provided free land for pioneers who settled our state. The railroads also received free land to bring badly needed transportation to the west. It is only the form of incentives have changed as our economy has changed. Nebraska continues to offer incentive to risk takers who are trying to create or expand business and job opportunities to our state.

Q. But can't businesses give up something to help ease the current budget problems?

A. Remember that current Nebraska incentives are performance based. The incentives are based on levels of investment and adding jobs**. If business do not expand or locate in Nebraska, there is nothing to give up**. The real goal is to create quality jobs. More people in quality jobs will mean a stronger Nebraska economy, a growing tax base, and fewer budget problems. Nebraska business leaders and professional economic developers work continuously with the Governor and the Legislature to improve our performance based programs. The new **Nebraska Advantage** program is an example.

Q. Don't these tax incentives help only the big companies in Omaha and Lincoln?

A. Not at all. Tax incentives have helped communities all across the state recruit or create new businesses and expand existing businesses. In fact, it may be more valuable to cities outside Omaha and Lincoln than it is in those two major urban areas. Cities such as Norfolk, Columbus, Kearney, North Platte, Plainview, Beatrice, Aurora, Sidney, York and others have created thousands of jobs and millions in investment as a result of the incentive program. The LB 775 incentive program (1987-2004) is credited with $19 billion of investment & 71,000 jobs effecting 400 Nebraska communities.

Q. What happens if the company does not live up to their job creation/investment commitment?

A. Companies do not receive tax incentives until they have reached their commitment level. If they reach the level then later cut back, the incentives are cut back as well. These are performance based incentives, the company must perform up to the level promised over a period of years to earn the incentives. **The Department of Revenue continuously audits companies that receive incentive contracts**.

<u>Tax Increment Financing (TIF)</u>: *The use of newly created property tax dollars on new real estate improvements to assist in paying for the infrastructure for those improvements.*

TIF can <u>only</u> be used is an area that has been determined to be both substandard and blighted.

Cities do this to redevelop run-down properties, encourage new construction, improve neighborhoods, increase their property tax base and create new jobs.

Local officials and economic developers are <u>not</u> responsible for the national economic picture. They are responsible to grow our local economy.

Q. Incentives do not seem fair. How do they help the small business?

A. Incentives are **NOT** fair. Incentives are meant to be strategic. They are geared to higher paying industries and are designed to help bring new higher paying jobs that would not otherwise come to our communities. The workers holding these jobs are the customers of the service businesses and retailers in the community. **Without these jobs, the smaller businesses could not survive**. (the multiplier effect.)

Q. What is "Tax Increment Financing" (TIF)

A. TIF is the use of **newly** created property tax dollars on new real estate improvements to assist in paying for the water, sewer, and streets to serve those improvements. It is the use of **new** tax dollars that would not exist without the project. The taxes that were in place on the real estate prior to the new project are still collected by all taxing entities.

Q. With all the state incentive programs available why do cities give more help to companies through tax increment financing?

A. First it should be understood that the Tax Increment Finance (TIF) statute in Nebraska is very restrictive compared to other states. TIF can **only** be used in an area that has been determined to be both substandard and blighted. **The newly created property tax dollars can then be used for demolition of a substandard or blighted structure, street and utility improvements for the specific property and other project related costs. A cost benefit analysis is required**. Cities do this to redevelop rundown properties, encourage new construction, improve neighborhoods, increase their property tax base and create new jobs. **When TIF is used a project's taxes pay for the infrastructure improvements not the community as a whole**.

Q. What can economic development programs do to help the small business and startups?

A. In recent years, the economic development community has begun to recognize that "growing our own," through entrepreneur programs is economical and diversifies the local economy. When successful, these startups are more likely to stay in the local area. York County Development Corporation (YCDC), offers free business consulting through the entrepreneur program. Contact the YCDC office for details.

Q. With all the state programs why do cities need programs like LB840?

A. First a little history, the real name of the LB840 statute is **Local Option Municipal Economic Development Act**. An amendment to the Nebraska Constitution paved the way for LB840 legislation. **With voter approval of a local economic development plan and specifically defined tax revenues, municipalities are allowed to use these public funds for economic development purposes not otherwise allowed by the statute**. i.e. . Loans, grants, purchase of land and development of industrial sites, and funding bond issues for economic development projects, what ever is in the voter approved plan and the tax that funds it. LB840 is used to improve local job opportunities and expand the tax base. It is needed to remain competitive with communities in other states that have similar authority for economic development. Where a company is locates often comes down to the local incentive package. LB840 allows a community to have more control of its future by targeting how the economic development funds are spent through the voter approved plan. Many LB840 economic development plans also have performance requirements.

Q. There are studies that show that moving jobs from one state to another does not create an economic gain and in fact may be negative due to the costs of relocation, ect… Isn't there a lot of money spent on projects that in the big picture are not really economically sound?

A. It may be that there is not a true economic gain on a national scale in moving jobs from one state to another. However, our local officials and economic development professionals are not responsible for the national economic picture. They are responsible to grow our local economy. That sometimes means a community in another state will lose jobs. There is a difference between the relocation of a company and that same company building an expansion plant. Experience tells us that a total relocation should be looked at carefully in terms of why the company is relocating. Is it strategic, for example, to be closer to markets or is the company in financial trouble and looking for a bail out. An expansion facility is much more desirable. It represents true economic gain with an increase in business volume, entry into new markets and the creation of new jobs. **Expansion projects are the ones we focus on**.

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Companies do not want to go public for competitive reasons and to keep rumors at a minimum among their employees.

Reporting information before the deal is done and without the permission of the client will kill a deal.

Who works on Development Projects?

- *Local Government officials*
- *Local Economic Development Groups*
- *Department of Economic Development*
- *Federal Agencies*
- *Regional Economic Development Agenceies*

Q. Why don't we get more information on the projects the economic development people are working on?

A. Companies do not want to go public for competitive reasons and to keep rumors at a minimum among their employees. Additionally, the typical project will take from a few months to more than a year to complete, sometimes several years. Projects are a stop start process even after the site decision is made. Reporting information before the deal is done and without the permission of the client will kill a deal. A Pella Window project is an example. The Nebraska community went public without company approval and the project went to Iowa. **Information on specific projects should be released only by the client or at the client's direction**.

Q. Whose job is it to work on economic development projects?

A. Generally there is a lead agency at the local level that responds to project opportunities. In reality, no one agency or person can do a project alone. There are many partners in the process; local government, utilities, the local economic development group, Department of Economic Development, federal agencies, and regional economic development agencies. All of these partners bring their specific knowledge, resources and services to the table.

Q. How do you learn about a potential economic development project?

A. Projects come from many sources: directly from the companies themselves, calls on local industry, marketing efforts, site selectors, and from contacts made by the Nebraska Department of Economic Development.

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This publication of frequently asked questions is a work in progress. If you have a question that does not appear here please contact the YCDC office and your question and the answer will be added to the brochure at the next revision. You may go to the YCDC web site for additional information.

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Trends in Economic Development

Center for the study of Rural America at the Kansas City Federal Reserve Bank 2003 annual report. Following are excerpts from that report.

"A nation's economic well-being (as well as a state's) directly reflects the innovation and growth of its regional economies." (Parentheses added.)

"Regions clearly matter in a globalizing market place. When communities combine their strength, they can reach markets that could never reach alone."

"For many small communities focusing on ***interdependence*** rather than independence can make the difference between languishing and prospering."

"Public policy will play a critical role in building new economic engines across rural America. Just as regions must approach the future economy with new strategies, so must policy (i.e. elected) officials. In many ways policy...for rural development are still aimed at 20th Centrury problems."

"Building regional competitive advantage means focusing less on recruiting and more on growing your own entrepreneurs."

The trend is rural economic development is clearly toward more regional cooperation, creating regional economic development groups, developing local entrepreneurs and pooling of resources