

## **Austin Business Journal**

### **Is it worth it? Advocates discuss the state of Austin's incentive program**

**By ABJ Staff**

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In recent weeks, Austin's economic incentive program has come under scrutiny in the wake of several growing companies canceling deals that were already in motion — while incentives on the state level are being scrutinized like never before.

Mayor Lee Leffingwell weighed in, saying he is concerned about the “greatly diminished” incentive program offered by City Hall. Some worry it'll become a loophole that companies will jump through simply to get bigger Texas incentives — and once they qualify for the state's lucrative handouts they'll simply pass on the city's deal. Dropbox Inc. is one of the companies that recently did that.

Austin Business Journal asked some key stakeholders with strong ties to the Greater Austin Chamber of Commerce about the state of Austin's economic incentive program — how valuable it is, what works and what doesn't work.

#### **Does Austin's incentive program do too much or too little to attract businesses and jobs?**

**Bobby Jenkins:** We need to continue to focus on refining our incentive program to make it as attractive as possible to potential companies looking to relocate in Austin. As recruiting businesses has become more and more competitive, we need to make sure we are offering incentives that work for the company and for our city. Our program does not do too much and needs to be aggressive.

**Pete Winstead:** We have only executed 20 incentive agreements in the last 10 years, and yet Austin is the top job-generating urban area in the United States. The incentive program is only a small part of the overall job-generating efforts in Central Texas. The existence of the potential for an incentive keeps us in the hunt for interested companies looking at other locations. We did not go from No. 20 to No. 1 of the top 50 urban areas in the nation in job creation over the past 10 years, or the last area to enter the 2008 recession and the first to exit because of luck. [We're successful in part because] of an aggressive economic development program commenced by the Austin Chamber in 2003 and the \$50 million raised by the business community to support these efforts over the past 10 years.

**Craig Enoch:** The question should be whether Austin's relatively minor incentive program provides sufficient contribution to the [overall] incentive program, involving other organizations' resources, so that we're all working together to attract job-creating businesses to Austin. The value of Austin's contribution is more in the demonstration of its commitment to the incentive program, rather than the monetary value of the contribution itself.

**Gary Farmer:** From the very beginning, Austin's incentive program was designed to do three things: create jobs for families; create real return for taxpayers; and create responsibility for the entities that receive the incentives. Ten years later, we have executed 20 incentive agreements with some of the leading companies in the world, like Apple, Samsung, Visa, Facebook, HID Global, Legal Zoom, Hanger Orthopedic and others. Every deal created positive job growth and makes money for the taxpayers. The city of Austin had a \$14 million budget surplus in fiscal 2013-2014. And every deal yokes the companies with Austin-based values and obligations — from the number of jobs, the amount of investment, employee benefits packages and more that the company must meet in order to qualify for the deal.

### **How could Austin's incentive program be altered to bring more jobs to the city?**

**Winstead:** The new, tougher criteria for incentives being imposed by the city – prevailing wages on construction and living wages for employees – and the attitude of some members of City Council to cut back on incentives is the same kind of complacency that caused Austin to lose its way in 2002 at the cost of 30,000 jobs, which led to the first [Chamber of Commerce] Opportunity Austin program in 2003.

**Jenkins:** Our packages need to be flexible and aggressive, and now is not the time to pare back our efforts. The minute we relax and stop focusing on economic development, we will fall into neutral, and it will take years to get the momentum back.

**Farmer:** In particular, we need to focus more than ever to create pathways to prosperity for those in our community who have not achieved a high school or college education. Unfortunately, the recent changes to the city's policy will make it more challenging to attract the types of companies who can, and will, hire people who are not holding college degrees. The new policy will only continue to attract high-tech companies that hire an educated workforce, which is great, but if the city is serious about tackling poverty, our policy should be more flexible.

### **Are you concerned by the recent cancellation of incentive agreements by companies such as Dropbox and U.S. Farathane?**

**Winstead:** I'm concerned that if this practice continues and companies abandon their local incentive package due to too tough or unreasonable performance conditions, the state will soon [mandate] its much more lucrative Texas Enterprise Fund grants on full performance and compliance with the local incentive requirements.

**Tom Blair:** These incentives are performance-based and reflect a fair return for the city. If companies are canceling them it means they are too stringent or cumbersome, not attainable, or do not provide an ROI.

**Enoch:** I agree with the mayor that the recent cancellations are a warning sign, but my greater concern is that the organizations providing the bulk of the economic incentives will redirect their incentives to local governments that prove to be true partners in the incentive program. Austin should not succumb to the arrogance of pride, thinking it can demand much for its little incentive contribution.

**Farmer:** This is not an isolated incident or two, but rather a trend which should suggest to an objective observer that something is wrong with the terms of agreement or the interpretation and enforcement of the agreement by the city. The primary reason for the cancellations relates to the procurement process under the Small & Minority Business Resources Department. The implementation of the program by the city is so onerous and expensive that the cost of compliance is equal to or greater than the modest annual incentives awarded to the companies. If that's the case, the most logical choice for the company is to cancel the agreement and forego the incentive. The net effect is that small minority- and women-owned businesses lose the opportunity the program was designed to provide.

### **Why should Austin offer deals to companies considering moves to town?**

**Blair:** At the end of the day, this is an economic decision for these companies, and if our package is not as attractive or does not compete economically with the other offers, we will lose and the region loses as a whole.

**Farmer:** Austin should be very judicious in its use of incentives. Incentives should only be used for companies that provide significant or unique opportunities to grow and/or diversify the economy in Austin. But if we want

to grow and diversify our economic opportunities in Austin, incentives are a necessary tool. We should not fool ourselves to say we want to compete without incentives. It would not be a fair fight, and we would lose.

**Winstead:** Failing to have an incentive program would cause many companies to eliminate us from consideration at the outset, and most companies are ultimately more interested in the labor market, tax climate or litigation abuse protection than the dollar value of the incentives. But if they never “kick the tires” in Central Texas, we lose out.

**Jenkins:** Austin needs to continue to offer incentives to companies looking to move here. When people from out of state move here or when new jobs are created, it creates economic opportunity for all types of small- and medium-sized businesses.

Austin is the “it” city in the country, and many other cities want to be the next Austin. If we don’t stay aggressive and competitive, we will lose that cachet.

### **How does Austin’s incentive program stack up against similar cities?**

**Winstead:** It’s my sense that [many] other cities are offering more generous packages because of the success that Austin has achieved in recent years. To my knowledge, the amount of money devoted to economic development in the Chamber program, Opportunity Austin, is in line with, if not below, similar programs in other [peer] cities.

**Farmer:** From 2004-2014, Austin’s program has been sufficiently competitive. To be sure, it is not the easiest program to navigate and it isn’t close to the most lucrative program available to companies, but it has been just enough to execute 20 significant agreements for our community. It’s worth noting that during the same period that Austin executed 20 incentive agreements, Houston, Dallas and San Antonio awarded a multiple of three to six times the number of incentive agreements that Austin awarded. Unfortunately, Austin has recently amended the program in three different areas that will make our program even less competitive. The net effect, in my opinion, is that we will be less competitive in the recruitment of general manufacturing companies that could and would offer employment opportunities to the segment of our community not holding college degrees.

### **How might incentives fare under a 10-1 Council?**

**Winstead:** It would be easy for candidates in the new 10-1 structure to campaign against further incentives as corporate welfare or crony capitalism. The business community does not intend to let candidates get by with these kinds of cheap shots.

**Blair:** This will be a challenge under the new configuration. If a relocation does not directly affect a council member’s district, they may not be inclined to support an incentive. Hopefully the Council will take a team approach.

**Jenkins:** Hopefully, newly elected council members will have a regional perspective about what is good for this area and not just a view of their specific district. Regardless of where a company might be located, the economic impact will be felt throughout the area.

**Enoch:** Perhaps the impact of a business relocation will be seen as more concrete in a particular district, where as now it may be viewed more abstractly by an at-large elected council.

**What's the biggest misconception about economic incentive deals?**

**Winstead:** That incentives do not pay for themselves or are not subjected to strict analysis of the return on investment from such programs.

**Blair:** That the city is either losing money or writing checks to these companies, neither of which is the case. Incentives are designed to provide an ROI for all parties involved.

**Enoch:** That the connection is direct between Austin's incentive offering and the business' move to Austin. Another misconception is that Austin contributes cash to those companies; that is not correct. Incentives mostly involve local tax deferral or abatement or waiver of development fees, resulting in a reduction of cost to the moving company. An incentive only becomes an economic impact to the city if the business begins operating here. Additionally, both the local and state incentives are performance-based, meaning a company does not receive any payments until they meet certain thresholds for either job creation or capital investment.

**Farmer:** That the agreements cost us money. That is not true. Every deal Austin has done has made us money.

*The panelists' responses have been edited and condensed.*