# Incentives Draw Firms, but at What Cost?

By Michael Weiss

In the economic development arena, incentives for high-profile corporate relocations signal that a locality is open for business. They draw attention to an area's commercial and economic opportunities with the goal of expanding its depth and breadth of operations. Texas' expansive economy has included its share of such relocations, notably Toyota Motor North America's 4,000-employee 2017 move from Torrance, Calif., to Plano and Exxon Mobil Corp.'s more than 11,000-worker consolidation in 2016 to The Woodlands, north of Houston.


Among government leaders, the implicit expectation is that benefits—generally well-paying jobs with the target company and its suppliers and contractors as well as business-friendly image burnishing—exceed the costs of providing the incentives.

The abatements—though involving significant sums—are often small relative to overall tax receipts. The developer of the 478,000-square-foot property Exxon Mobil will occupy will receive a 10-year, 100 percent abatement on one of two office buildings the company will occupy and 50 percent on the other. Montgomery County's tax assessor estimated the annual forgone taxes at $400,000. The sum is relatively minor compared to Montgomery County's overall adjusted tax base, which according to the county assessor totaled $37.3 billion and helped generate $169.5 million in taxes in 2013.

The Toyota move is pricier, with the company receiving a reported 10-year, 50 percent abatement on $350 million in real and business property tax in addition to $40 million from the Texas Enterprise Fund and $6.75 million from the city of Plano.

## Valuing Abatements

As the number and complexity of abatements has increased—sometimes pitting local governments against one another—researchers have struggled with how to value abatements and incentives. Even assessing the timeframe over which to measure their impact is difficult. While politicians tend to showcase new arrivals and their immediate impact, their value may arise decades later in the form of a new commercial center that might not otherwise exist.[1]

In the short run, some of the incentives prompt questions about whether economic activity is created or merely displaced from one location to the next. Michael Porter, the noted Harvard Business School competitiveness expert, suggests the answer is mixed.[2] On the one hand, relocation incentives can signal that an area is open for business or highlight its attractiveness to new industries. On the other hand, relocation incentives can reward firms that would have come to the area anyway or be larger than the firm's economic impact would warrant.

Only time will tell whether the Dallas suburb of Frisco gave up too much when it successfully lassoed the Dallas Cowboys practice facility from the city of Irving (which separately claimed its own prize, 7-Eleven Inc.'s North American headquarters from Dallas, in a nearly $1 million tax abatement deal). Frisco's more than $100 million plan for the Cowboys—groundbreaking was in August—aims to have the NFL team ensconced by 2016. In turn, other developers subsequently revealed plans for a $1 billion mixed-use project surrounding the team's facility.

The overall property tax base in Texas is 52.3 percent composed of residential property, 20.3 percent commercial and industrial property and 27.4 percent of other, suggesting that residential property owners initially make up a larger part of abated taxes, data compiled by the Lincoln Institute of Land Policy indicate. Nationally, the tax base is 59.8 percent residential, 21.6 percent commercial and industrial, and 18.6 percent other. Apart from taxes, there are other costs, such as environmental and congestion concerns and possible pressure on the property tax base that existing property owners may be called upon to absorb.

Some analysts suggest that the success of incentives can be judged simply by whether they bring in business that might not have otherwise relocated.[3] Even then, accurately gauging the economic success of a particular incentive plan can be difficult. The time required to complete many relocations as well as evolving local labor market demand complicate such assessments.

## Notes

[1] "Chasing a Dream: The Use of Tax Abatements to Spur Urban Economic Development," by Michael J. Wolkoff, *Urban Studies*, vol. 22, no. 4, 1985, pp. 305–15.

[2] "Defining Clusters of Related Industries," by Mercedes Delgado, Michael E. Porter and Scott Stern, National Bureau of Economic Research, NBER Working Paper no. 20375, August 2014.

[3] "Bidding for Business: New Evidence on the Effect of Locally Offered Economic Development Incentives in a Metropolitan Area," by Robert W. Wassmer and John E. Anderson, *Economic Development Quarterly*, vol. 15, no. 2, 2001, pp. 132–48.