



BEST PRACTICE

Developing an Economic Development Incentive Policy (2008)(CEDCP)

Background. Economic development incentives, non-financial and financial, include a broad range of tools, ranging from expedited planning and permitting processes to direct or indirect funding. Jurisdictions often use these incentives to pursue specific economic goals such as tax base diversification, job creation, or business retention and expansion. Incentives are usually set by federal, state, or local law or practice.

The use of financial incentives to benefit private parties, especially those that involve the transfer of public funds to private parties, introduces risk factors not generally present in other public financial management areas. For this reason, economic incentives must be based on a policy that establishes parameters for their appropriate use in relation to the economic development goals of the jurisdiction.

Recommendation. The Government Finance Officers Association (GFOA) recommends jurisdictions using or considering the use of economic development incentives create a policy on the appropriate parameters for use of such incentives and that the finance officer play an active role in the creation of the policy.

At a minimum, an economic development policy should contain the following elements:

1. **Goals and Objectives.** Goals and measurable objectives create a context and accountability for the use of economic development incentives. Common goals used in economic development include: target economic sectors, business retention and/or recruitment, geographic focus, job creation, blight mitigation, improving economically distressed neighborhoods, and environmental improvements.
2. **Financial Incentive Tools and Limitations.** An economic development policy should define the types of incentives and the extent to which the jurisdiction will use them. For example, governments may choose to grant an entitlement to any firm that meets minimum qualifications, or may choose to provide incentives based on an assessment of individual firms. Governments may also establish maximum funding for a particular program.
3. **Evaluation Process.** A clearly defined evaluation process should be outlined in an economic development policy for the purposes of consistency and transparency. Evaluation activities and factors typically include:
 - a. How a proposal measures up to established economic development criteria
 - b. A cost/benefit analysis
 - c. An evaluation of tax base impact, both in terms of increases in taxable value and, where a TIF is proposed, the impact on all overlapping taxing jurisdictions.
 - d. Analysis of the impact of a project on existing businesses
 - e. A determination of whether the project would have proceeded if the incentive is not provided.

A jurisdiction may also wish to include in its policy a list of required documentation for the economic development application and the officials who are a part of the review team.

4. **Performance Standards.** An economic development policy should require that specific performance standards be established for each project receiving incentives. Not only will these performance standards help a jurisdiction gauge the effectiveness of its overall economic development program, but may also be

used to recover promised financial benefits, through clawbacks or linkage agreements, of recipients failing to fulfill their commitments.

5. **Monitoring and Compliance.** A process should be established for regular monitoring of the economic development incentives granted and the performance of each project receiving incentives. The policy should also provide for organizational placement and staffing of this activity. The monitoring process should examine performance standards relative to each economic development agreement and determine whether the goals for each project are achieved within the defined timeframe. Ongoing monitoring of these projects should become part of an overall economic development program.

References

- *Elected Officials Guide to Economic Development*, GFOA, 2005.
- GFOA Best Practice, “The Role of the Finance Officer in Economic Development,” 2006.
- *How Local Governments Can Get More for Their Economic Development Dollar*, Rachel Weber and David Santacroce, 2007.
- Council of Development Finance Agencies, www.cdfa.net.
- Good Jobs First, www.goodjobsfirst.org.
- Economic Development Agreement Outline, www.gfoa.org.
- International Economic Development Council (IEDC), www.iedconline.org.

Approved by the GFOA’s Executive Board, October 17, 2008.