

**CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS**

BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102
(415) 552-9292 FAX (415) 252-0461

April 19, 2011

Honorable Mark Farrell
and Members of the Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear Supervisor Farrell and Members of the Board of Supervisors:

Pursuant to your request, the Budget and Legislative Analyst's report is hereby transmitted comparing and analyzing business taxes and financial incentives to attract and retain businesses in 14 cities and six states throughout the country. These business taxes and financial incentives are compared to those of the City and County of San Francisco in this report.

Respectfully submitted,



Harvey M. Rose
Budget & Legislative Analyst

cc: President Chiu
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Supervisor Campos
Supervisor Chu
Supervisor Cohen
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(Revised 4/14/11)

LEGISLATIVE ANALYST REPORT

To: Supervisor Farrell
From: Budget and Legislative Analyst 
Date: April 13, 2011
Re: Comparison and Analysis of Business Taxes, License Fees and Incentives
Granted to Businesses in 14 Cities and Five States (Project 110150.1)

SUMMARY OF REQUESTED ACTION

Pursuant to your request, the Budget and Legislative Analyst has compared and analyzed how various cities and states tax firms that are doing business in their respective jurisdictions. In particular, we surveyed 20 jurisdictions, consisting of six states and 14 cities, including San Francisco. We reviewed whether these 20 jurisdictions assess a Payroll Expense Tax and/or tax stock options as part of the Payroll Expense Tax. Additionally, we analyzed other incentives which the surveyed 20 cities and states offer to the firms doing business in their jurisdictions.

The jurisdictions for this review and analysis include 14 cities and six states as follows: the cities of Austin, Boston, Durham, Mountain View, New York, Palo Alto, Raleigh, Redwood City, San Diego, San Francisco, San Jose, San Mateo, Santa Clara, Seattle, and the states of California, Massachusetts, New York, North Carolina, Texas, and Washington. The incentive programs that we have identified as of the writing of this report do not include a list of all of the incentive programs offered by each jurisdiction surveyed. Further, our review did not include an evaluation as to the effectiveness of the various incentive programs.

EXECUTIVE SUMMARY

- Twelve of 14 cities surveyed impose a business license fee, either annually, one-time or every four years. In addition, 11 of the 14 cities impose a business tax based on either gross receipts or a tax per employee, which may be levied as well as a business license fee.
- San Francisco is the only jurisdiction in the survey to impose a Payroll Expense Tax, including taxing stock options as part of its Payroll Expense Tax, on businesses whose taxable payroll expense exceeds \$250,000 annually.
- The San Francisco Payroll Expense Tax is significantly greater than a flat tax per employee, which is imposed by three of the 13 other cities surveyed as noted above.

For example, the City of San Jose charges \$18 per employee for each employee exceeding eight employees. Therefore, a business located in San Francisco with 108 employees and an estimated conservative payroll of \$5.4 million would pay \$81,000 per

year in Payroll Expense Tax (San Francisco's Payroll Expense Tax rate of 1.5 percent times payroll of \$5.4 million) as compared to a business located in the City of San Jose with 108 employees, which would pay a tax of \$1,800, or \$18 times 100 employees (108 employees less 8 employees).¹

- Additionally, New York City has multiple methods for determining its business tax, one of which includes a percentage of the personal income earned by any person owning more than five percent of the company's issued stock. However, New York City's methodology is based on income earned when the owners exercise the stock options as opposed to taxing stock options as part of a payroll, as San Francisco does.
- We found that 14 of the 20 jurisdictions surveyed (San Francisco not being one of them) offer at least one type of financial incentive to businesses, including tax credits, exemptions or abatements; access to bond fund monies for various businesses; and loans and/or grants for business expenses such as purchasing equipment or research and development. These incentive programs are administered by either a city, county, state or the Federal government. Additionally, the incentive programs are based on whether a business is located in a designated zone for business and economic development, relocated to the special jurisdiction from another jurisdiction, creates new jobs, and/or promotes the growth of a particular industry.
- The City and County of San Francisco offers businesses various exemptions or exclusions to its Payroll Expense Tax. These include Clean Technology and Biotechnology Payroll Expense Tax Exclusions. In addition, the City and County of San Francisco utilizes various State and Federal programs as incentives for businesses to locate, expand, or remain in the City. For example, the San Francisco Board of Supervisors adopted an ordinance implementing a Payroll Expense Tax Exclusion for businesses located in the Central Market Street and Tenderloin Area.
- 14 of the jurisdictions surveyed offer financial incentives to businesses that differ from those offered by San Francisco. At least nine programs surveyed require businesses receiving financial incentives to meet specified criteria or performance measures, such as job growth and retention, in order for such businesses to continue to receive the financial incentives in subsequent years. Failure to meet performance measures may lead to a reduction in funds and/or a recapture of funds provided by the jurisdiction. Examples of such incentive programs are the Wake County Business Incentive Grant (North Carolina), which includes businesses located in Raleigh; the New York City Job Creation and Retention Program; and the Texas Enterprise Fund of the State of Texas.
- Local agencies such as a Redevelopment Agency or an Office of Economic and Workforce Development generally administer the incentive programs. However, businesses applying for financial incentives through the City of Austin's Economic Development Matrix must have their proposed incentive package approved by the City Council. Further, the City Council reserves the right to develop unique incentive packages on a case-by-case basis.

¹ Harvey M. Rose Associates, LLC, a partner in the Budget and Legislative Joint Venture Partnership, which prepared this report, is subject to the San Francisco Payroll Expense Tax.

- At least 16 programs offer financial incentives to businesses in an effort to target and attract specific industries. In comparison to San Francisco, which offers payroll tax exemptions or exclusions, these 16 programs offer various incentives and tax credits, such as credits for employment, training, and research and development in a specific industry. The New York State Qualified Emerging Technology Companies (QETC) Incentive Program and North Carolina State Interactive Digital Media Incentive are examples of such incentive programs.
- The City of Austin (Texas) reported using incentives approved by the City Council on a case-by-case basis based upon specific investment criteria and goals, such as job growth, investment, and the merits of the individual project. These case-by-case incentives, however, are not publicly outlined on cities' websites or in other official materials. Other states and cities may award incentives on a case-by-case basis, but the information is not readily available.
- Eight of the incentive programs that we reviewed were funded or administered jointly across entities from multiple sectors, including nonprofits, universities, foundations, private investment companies and local municipalities. Examples of jurisdictions surveyed which offer such incentive programs are San Diego, Boston, Seattle, and New York.

BUSINESS TAXES FOR SELECTED JURISDICTIONS

As shown in Table 1 below, 12 of 14 of cities surveyed require a business license fee, either annually, one-time or every four years. In addition, 11 of the 14 cities impose a business tax based on either gross receipts or a tax per employee. San Francisco is the only jurisdiction in the survey to impose a Payroll Expense Tax, including stock options as part of its Payroll Expense Tax, on businesses whose taxable payroll expense exceeds \$250,000 annually. Compared to the other cities included in the survey, the Payroll Expense Tax is significantly greater than a flat tax per employee. For example, the City of San Jose charges \$18 per employee for each employee exceeding eight employees. Therefore, a business located in San Francisco with 108 employees, assuming a conservative average annual salary of \$50,000 per employee would have an annual payroll of \$5.4 million and would pay \$81,000 per year in Payroll Expense Tax (San Francisco's Payroll Expense Tax rate of 1.5 percent times payroll of \$5.4 million) compared to a business located in San Jose with 108 employees, which would pay an annual tax of \$1,800 or \$18 x 100 employees (108 employees less eight employees).

Additionally, New York City has multiple methods for determining its business tax, one of which includes a percentage of the personal income earned by any person owning more than five percent of the company's issued stock. However, this methodology is based on income earned when the owners exercise their stock option as opposed to taxes on the stock options as part of the Payroll Expense Tax, which San Francisco does, when a company becomes a publicly traded company.

Table 1
Business Taxes for Various Cities and States

State	City	Business Tax
California		Corporate Income Tax rate of 8.84% for all companies, except financial institutions, which are subject to a rate of 10.84%. The minimum corporation franchise tax is \$800. The additional alternative minimum tax ² is levied at a 6.65% rate.
	Mountain View	Annual fee ranging from \$30-\$100.
	Palo Alto	One time \$381 fee for Certificate of Use and Occupancy. Otherwise, no annual business fee or tax.
	Redwood City	Annual fee of \$37, plus \$24 per owner/partner/full time employee. The maximum fee is \$3,030 in FY 2010-11.
	San Diego	Annual fee of \$125, plus \$5 per employee.
	San Francisco	Annual fee ranging from \$25 to \$500, based on estimated payroll expense, plus 1.5% tax on total payroll expense, including stock options, on businesses whose taxable payroll expense exceeds \$250,000 annually.
	San Jose	Annual fee of \$150 plus \$18 per employee over 8 (includes owners).
	San Mateo	Tiered schedule for tax based on gross receipts or a flat fee based on type of business for certain businesses.
	Santa Clara	Tax based on number of employees, by type of business ranging from \$15 to \$500, or a flat fee based on type of business for certain businesses.
Massachusetts		Corporate Income Tax rate of 8.25%, with financial institutions subject to a rate of 9.25% (in 2012 expected to drop to 8.0% and 9.0%, respectively). Business and manufacturing corporations pay an additional tax of \$2.60 per \$1,000 on either taxable Massachusetts tangible property or taxable net worth allocable to the state (for intangible property corporations). The minimum tax for both corporations and financial institutions is \$456.
	Boston	\$50 to \$75 business fee paid every four years. Otherwise, no business taxes paid to the City of Boston.
New York		General Business Corporate Tax rate is 7.1%. Corporations may also be subject to an alternative minimum tax at 1.5% (3% banks), or a capital stocks tax. A minimum tax ranges from \$25 to \$5,000, depending on receipts (\$250 minimum for banks). Certain qualified New York manufacturers pay 6.5%. Small business taxpayers in New York pay rates of 6.5%, 7.1%, and 4.35% on 3 brackets of entire net income up to \$390,000.
	New York	General Business Corporation Tax is based on four methods, whichever is higher: (a) 8.85% of the business' net income; (b) 0.15% of capital base; (c) alternative tax base that is 1.33 % of the net income plus the amount of salaries or other compensation to any person, including an officer, who at any time during the taxable year owned more than five percent of the taxpayer's issued capital stock; or (d) fixed dollar amount based on gross receipts.

² The alternative minimum tax is a tax imposed by the Federal government on corporations as part of the United States income tax.

Table 1 (Continued)
Business Taxes for Various Cities and States

State	City	Business Tax
North Carolina		<ul style="list-style-type: none"> ▪ Corporate Income Tax rate of 6.9%. Financial institutions are also subject to a tax equal to \$30 per one million in assets. ▪ Franchise tax is annually levied on North Carolina corporations. The rate 0.0015% of the largest of the following: (a) capital stock, surplus and undivided profits apportionable to the State; (b) 55% of appraised value of property subject to taxation; or (c) actual investment in tangible property in North Carolina.
	Durham	Annual fee based on gross receipts OR a flat fee, depending on business type. For service businesses such as technology companies, the fee is \$50.00 for the first \$15,000 in gross receipts, plus \$0.50 per each additional \$1,000. The maximum fee is \$8,000.
	Raleigh	Annual fee based on business type, ranging from \$5 to \$2,000, and/or various tax rates based on gross receipts. The maximum tax is \$20,000.
Texas		Franchise Tax, otherwise known as Margin Tax, imposed on entities with more than \$1,000,000 (decreases to \$900,000 in 2012) in total revenues at a tax rate of 1%, or 0.5% for entities primarily engaged in retail or wholesale trade, on lesser of 70% of total revenues or 100% of gross receipts after deductions for either compensation or cost of goods sold.
	Austin	Tax that is ½ the Business Tax levied by the State on each occupation or separate establishment, which includes the Franchise or Occupation Tax for certain businesses (not in the technology industry).
Washington		Business and Occupation Tax based on gross receipts. Tax rates range from 0.471% to 1.8%, with technology companies paying the 1.8% tax rate.
	Seattle	Annual fee of \$90 (\$45 for small businesses with gross income of \$20,000 or less), plus tax on gross receipts with rates ranging from 0.15% to 0.415%. Technology companies would pay the 0.415% tax rate.

Sources: City and state websites; Municipal Codes; direct contact with city representatives, and the 2009 Kosmont-Rose Institute Cost of Doing Business Survey.

BUSINESS INCENTIVES OFFERED AT SELECTED JURISDICTIONS

Most cities and states surveyed, with the exception of Santa Clara, Mountain View, Palo Alto, Redwood City, and San Mateo, offered financial incentives to new and existing businesses in their respective jurisdictions based on a set of criteria, such as growth in employment, tax base and revenues; and investment in and/or development of certain industries and fields. The financial incentives could be a tax incentive in the form of a tax credit, abatement, or rebate; access to bond financing; loans and/or grants for business expenses. Further the financial incentives could be offered through a city, county, state, or Federal program.

Table 2 below summarizes the various types of financial incentives offered in nine cities in the states of California, Massachusetts, New York, North Carolina, Texas, and Washington.

Table 2
Various Incentives of Jurisdictions by Type

	Tax Incentive Program									Bonds ³	Loans			Grants		
	Zone Type Programs ⁴			Other Programs							Federal	State	Local	Federal	State	Local
	Federal	State	Local	Technology	Relocation	New Jobs	R&D	Case-by-Case	Other ⁵							
California ⁶		✓														
San Diego		✓	✓	✓				✓	✓							✓ ⁷
San Francisco		✓ ⁸	✓ ⁸	✓		✓					✓					
San Jose	✓	✓														
Massachusetts		✓							✓							
Boston				✓		✓	✓		✓	✓						✓
New York			✓													
New York City	✓ ⁹			✓	✓	✓		✓	✓		✓		✓ ⁷			✓ ⁷
North Carolina				✓						✓					✓	
Raleigh				✓	✓	✓	✓			✓					✓	✓
Durham				✓		✓	✓	✓		✓						✓
Texas													✓		✓	✓
Austin		✓	✓			✓										
Washington																
Seattle	✓ ⁹	✓		✓		✓	✓			✓	✓	✓	✓ ⁷			

³ A Zone Type Program is one that provides tax incentives to businesses located in a designated geographic area for economic development.

⁴ Revenue from the sale of below-market rate interest bonds may be used for private businesses and real estate projects.

⁵ Includes tax rebates, tax abatements, and reimbursement or reduction of fees.

⁶ Due to lack of programs, information is not included on the following California cities: Santa Clara, Mountain View, Palo Alto, Redwood City, or San Mateo

⁷ Includes Public – Private Partnership Programs.

⁸ The State and Local Enterprise Zones are currently proposed to be eliminated by the Governor of California.

⁹ New Market Tax Credit, federal program permits taxpaying investors to receive a credit against their federal income tax liability for making qualified equity investments in designated Community Development Entities (CDEs) that provides investments to projects and businesses in low-income communities.

San Francisco

According to the San Francisco Office of Economic and Workforce Development, businesses located in San Francisco can take advantage of various City and County payroll tax exemptions, as well as State and Federal programs for reducing the cost of doing business.

Local Programs

Clean Technology Payroll Tax Exclusion

As previously mentioned, businesses located in San Francisco are required to pay a 1.5 percent tax based on their payroll expenses. Businesses that employ between 10 and 99 employees that engage in clean technology, including the development, manufacture, or application of technology to produce or contribute to energy produced by wind, solar energy, landfill gas, tidal energy, bio-fuels and other forms of renewable energy, are eligible for a payroll tax exclusion, if their taxable payroll expense exceeds \$250,000 annually.

SF Enterprise Zone (EZ) Payroll Tax Credit

Businesses located in targeted San Francisco locations as part of the State designated Enterprise Zones, including Bay View Hunters Point/ South Bayshore, Chinatown, the Mission, Mission Bay Project Area, Potrero Hill, south of Market, the Tenderloin, and the Western Addition, may reduce their payroll tax expense for qualified employees.¹⁰ The tax credit is for new jobs created on or after January 1, 1992. The dollar amount of the tax credit depends both upon the duration of employment as of the day payroll taxes are due and eligible wages paid.

Biotechnology Payroll Tax Exclusion

Businesses engaged in the biotechnology industry are eligible for a payroll tax exclusion for up to 7.5 years.

State Programs

California Enterprise Zone (EZ) Tax Credits & Incentives

The State of California Enterprise Zone program helps businesses located in designated Enterprise Zone areas reduce their State income tax liability through business expense deductions, hiring tax credits, accelerated depreciation, and a 15-year carry-over of up to 100 percent of net operating losses. These Enterprise Zones are the same zones used for the San Francisco Payroll Tax Credit and are listed above.

California New Jobs Tax Credit

Small businesses (20 employees or fewer) are eligible for a State tax credit of \$3,000 for each additional full-time employee hired after January 1, 2009. Eligible businesses must pay each additional full-time employee for a minimum of 35 hours per week and be able to demonstrate an increase in the number of full-time employees from the preceding taxable year.

¹⁰ A qualified employee is defined as a person who is newly hired for a newly created job and is either: (a) receiving subsidized employment training or services under the Workforce Investment Act; (b) registered in the California Work Opportunity Tax Credit; (c) certified by the Employment Development Department as eligible for the Federal Work Opportunity Credit Program; or (d) a participant of the County Adult Assistance Program.

Federal Programs

Work Opportunity Tax Credit (WOTC)

The Work Opportunity Tax Credit is an income tax credit for employers who hire employees from eligible groups including youth, ex-offenders, and public assistance recipients. Eligible businesses can reduce their taxes up to \$1,200 for each new summer youth hire, \$2,400 for each new adult hire, and \$9,000 for each new long-term family assistance recipient hired over a two year period.

Hiring Incentives to Restore Employment (HIRE) Act

Employers who hired unemployed workers after Feb. 3, 2010 and before Jan. 1, 2011 may qualify for a 6.2 percent payroll tax incentive. Additionally, for each worker retained for at least a year, businesses may claim an additional general business tax credit, up to \$1,000 per worker, when they file their 2011 income tax returns.

Other States and Cities

The list of incentive programs described in further detail below is not an exhaustive list, but rather, a selective sample of programs that represent different types of unique economic development programs used by the jurisdictions surveyed. Compared to San Francisco, more jurisdictions seem to have more established programs with explicit policy objectives.

Programs in which Continued Financial Incentives are Based on Performance

Some local programs require businesses receiving financial incentives to meet specified criteria or performance measures to receive financial incentives in subsequent years. Failure to meet performance measures may lead to a reduction in funds and/or a recapture of funds provided by the jurisdiction. Examples of programs include the Wake County Business Incentive Grant (North Carolina), which applies to businesses located in Raleigh; New York City Job Creation and Retention Program; and the Texas Enterprise Fund of the State of Texas.

North Carolina Wake County Business Investment Grant (Includes City of Raleigh)

A company may be eligible for a North Carolina Wake County Business Investment Grant if they meet both a New Investment Threshold and New Jobs Threshold. Special consideration may be given to corporate, regional or divisional headquarters projects for Fortune 500 companies and large international companies.

- *New Investment Threshold* - New or existing companies may be eligible for a business investment grant for new investments that exceed \$100,000,000 in 2004 dollars.¹¹ New investment is defined as, “improvements to real estate, machinery, equipment, and other business personal property.” The value of land is not included in the calculation of new investment. Existing Wake County businesses may be eligible for a business investment grant for new investments that exceed \$50,000,000 in 2004 dollars, provided that existing taxable assessed valuation exceeds \$75,000,000 in the year the grant agreement is

¹¹ For each subsequent year, the amount of new investment will be increased by the Consumer Price Index and rounded to the nearest million dollars.

approved. Only the value of the new investment is used to calculate the amount of the incentive grant.

- *New Jobs Threshold* - New or existing companies are eligible for a business investment grant when the New Investment Threshold is met and there is a net increase of 50 full-time¹² Wake County employees. The average wage for new jobs must pay 120 percent of the average wage for Wake County, as defined by the North Carolina Department of Commerce Finance Center.¹³ The company must provide health insurance for full-time positions and pay a minimum of 50 percent of the premiums.

All projects are considered on a case-by-case basis. Wake County will consider a number of factors (in addition to the level of new investment and number of new jobs) when determining approval of a Business Incentive Grant, including:

- Type of business, relative to current tax base;
- Types of new jobs;
- Reputation of the company; and,
- The presence of competition with another jurisdiction for the project.

The amount of the grant payment to be paid by Wake County shall be up to 2.25 percent of assessed value of the new investment paid over a period of up to eight years. In no event shall the grant amount exceed the amount of ad valorem taxes paid by the company on the new investment in that calendar year.

All grant agreements are subject to performance criteria outlined in detail in the Business Investment Grant contract between the company and Wake County. In the event that a company fails to meet any of the provisions of the contract, Wake County may adjust the amount of the grant to the company or withdraw the grant entirely.

New York City Job Creation and Retention Program

The Job Creation and Retention Program (JCRP) in New York City provides discretionary grants to businesses committing to create a minimum of 75 new jobs in Lower Manhattan, as well as to employers making a commitment to retain at least 200 Lower Manhattan jobs. Grants may be up to \$4,000 per new full-time job based on the fiscal and economic impact of the proposed job creation and an assessment of the need for grant funds to move the project ahead in Lower Manhattan.

Other requirements for eligibility include:

- The minimum job creation must be achieved within 4 years with half of the jobs created within two years;

¹² A full-time employee is defined as a person who is employed by the company for at least 35 hours per week and whose wages are subject to withholding.

¹³ In 2004, the average wage was \$605 per week; 120 percent would be \$726 per week.

- The company has not yet made a commitment to locate the new jobs in Lower Manhattan; and
- The company's new jobs will be maintained in Lower Manhattan for at least 10 years. Failure to do so during the commitment term will subject the company to a recapture of grant funds.

Texas Enterprise Fund

The Texas Enterprise Fund (TEF) was established in 2003 by the Texas State Legislature to help attract new jobs and investment to the State. The fund was reauthorized by the Texas State Legislature in 2005, 2007, and 2009, and is reported to be the largest "deal-closing" fund of its kind in the nation. The fund is used only as a final incentive tool where a single Texas site is competing with another viable out-of-state option. Further, the TEF is only available to help "close a deal" that already has significant local support from a prospective Texas community. Projects that are considered for the TEF must demonstrate a significant rate of return on the public dollars being invested in the project. According to the Texas Office of the Governor, who administers the fund, to date, the TEF has brought more than 56,000 new jobs to the State and generated more than \$14.7 billion in capital investment.

There are several primary measures that every TEF project must meet in order to be considered for an award, including, but not limited to the following:

- Competition with another state for the project must exist and the business must not have already announced a location decision;
- Projected new job creation must be significant - past recipients have typically created more than 100 jobs in urban areas or more than 50 jobs in rural areas;
- New positions must be high-paying jobs - above the average wage of the county where the project would be located;
- Capital investment by the company must be significant;
- Project has community involvement from the city, county and/or school district, primarily in the form of local economic incentive offers;
- Applicant must be financially sound; and,
- Applicant's business sector must be an advanced industry that could potentially locate in another state or country.

Award dollar amounts are determined using a standardized analytical model applied uniformly to each TEF applicant. This model assures that the State of Texas will see a full return on its investment within the period of a project contract, due to the resulting increase in estimated sales tax revenues. Variations in award amounts are influenced by the number of jobs to be created, the expected timeframe for hiring, and the average wages to be paid.

To enforce Texas Enterprise Fund agreements, TEF grant recipients are contractually obligated to fulfill the terms of their job creation agreements with the State of Texas. Once a company has accepted an offer from the Texas Enterprise Fund, a signed contract is required prior to the distribution of an award. The contract obligates the grantee, among other terms and conditions, to the job creation targets and commits the grantee to maintain these employment positions at or above the county average wage for the term of the agreement. Additionally, all TEF contracts

contain provisions for grant repayment through tax clawbacks¹⁴ in the event that a grantee does not meet the obligations of the agreement.

In addition to requiring businesses receiving financial incentives to meet performance criteria, the Wake County Business Incentive Grant and the Texas Enterprise Fund both take into consideration whether an eligible business or proposed project in their respective jurisdiction is also proposed for location in another competitive jurisdiction. While the San Francisco Office of Economic and Workforce Development was aware of other viable alternative locations for Twitter outside of San Francisco during its negotiation of financial incentives, the City and County of San Francisco does not have a policy or program explicitly requiring competition as criteria for financial incentives.

Jurisdiction that Allows Local Elected Officials the Flexibility to Determine Incentive Packages on a Case-by-Case Basis

City incentive programs surveyed are typically administered by local agencies such as a Redevelopment Agency or Office of Economic and Workforce Development. However, businesses applying for financial incentives through the City of Austin's Economic Development Matrix must have their proposed package approved by the City Council. Further, the City Council has an explicit right to create a unique investment package on a case-by-case basis. Many other cities reported consideration of incentives by the governing bodies on a case-by-case basis based upon their investment criteria and goals, such as job growth, investment, and the merits of the individual project; however, such processes are not publicly outlined on cities' websites or in other official materials.

City of Austin Economic Development Policy and Matrix Program

The City of Austin's firm-based incentive policy incorporates community assets, or direct fiscal impacts such as expected sales tax revenue and property tax revenue from home sales, into the evaluation of companies either expanding or establishing new locations in the City. Each company is evaluated based on criteria and scored accordingly¹⁵ to ensure quality city investment into projects matching the region's competitive advantages and viable opportunities for the local workforce.

The City of Austin utilizes an Economic Development Matrix Program that scores businesses based on whether it is located in the desired Development Zone and is compliant with current City of Austin water quality regulations on all current projects and during the term of the incentive agreement. Other firm based factors used in the scoring include:

- Overall economic and fiscal impact;
- Local linkages to the Austin economy;
- Infrastructure impact;

¹⁴ A tax clawback arrangement is when tax benefits received from a company are reinvested in the company to cover any cash shortages and may cover various distributions such as profits, dividends, or even stock distributions. For example, instead of paying executives bonuses, those funds are diverted and reinvested back into the company.

¹⁵The City of Austin uses MPlan, a software analytical tool from Georgia Tech for economic development analysis purposes.

- Cultural/quality of life considerations;
- Extraordinary economic impact;
- Green building initiatives; and,
- Minority participation process.

Under the Matrix scoring system, points are assigned to each of the major criteria listed above. This scoring system is used to assess whether incentives will be offered to a firm and, based on the final score, the potential incentive amount for the firm. Firms with a score between 81-100 may qualify for a grant of up to 50 percent of the net present value of the estimated total tax liability over 10 years. Firms with a score between 61-80 may qualify for a grant of up to 30 percent of the net present value of the estimated total tax liability over 10 years. Firms that score 60 and below do not qualify for shared investments. As a standard practice, total investments in a firm will not exceed 50 percent of the present value of the estimated total tax liability over 10 years and will not exceed 80 percent of the total tax liability in any single year.

The Austin City Council also reserves the right to create a unique shared investment package in the case of extraordinary opportunities for economic development in Austin. These may include cases where:

- The firm is in a targeted industry;
- The firm is involved in leading edge technology;
- State economic development funds are available for the firm; and/or
- The firm will generate 500 jobs or more.

Jurisdictions that Target Specific Industries

Similar to the City and County of San Francisco, jurisdictions may offer financial incentives to businesses in an effort to target and attract specific industries. However, instead of only offering an exemption to a local business tax, other jurisdictions may offer various tax credits, including credits for employment, training, and research and development in a specific industry. The programs listed below are state programs that are not administered by local jurisdictions.

New York State Qualified Emerging Technology Companies (QETC) Incentive Program

Eligible companies may receive New York State tax credits for at least four years based on research and development expenses and related costs, as well as jobs created and employee training expenses. Investors in qualified companies can also receive a non-refundable credit of up to \$300,000 per year.

Companies must have products or services that are classified as "emerging technology," such as communications, new media, IT, engineering, advanced materials, biotech and electronics; have annual product sales under \$10 million and gross revenue under \$20 million in the previous tax year; 100 full-time employees or fewer with at least 75 percent based in New York; and New York-based research and development spending totaling over six percent of net sales.

The tax credits include:

- *Employment Credit* of \$1,000 per full-time employee in excess of those counted in the base year;
- *Facilities, Operations, and Training Credit* of up to \$250,000 per year;
- *Research and Development Credit* equivalent to 18 percent for the costs related to the purchase or lease of property to be used for research and development. The credit can also be applied to fees for technology facilities and equipment, quality control, and production costs incurred in connection with emerging technology activities.
- *Qualified Research Expense Credit* of 9 percent of expenses associated with in-house research and the distribution of company research and development results, including researcher salaries. The Qualified Research Expense Credit may also be applied to costs related to the patent and grant applications process.
- *High-Technology Training Credit* of up to \$4,000 per employee per year for training expenses. Training includes courses related to the activities of the company completed at a university or college located in New York State.

North Carolina State Interactive Digital Media Incentive

The North Carolina State Interactive Digital Media incentive became effective on January 1, 2011. The incentive provides a 15 to 20 percent tax credit for the total state tax liability received for compensation paid to employees and expenses paid to participating community colleges and research universities to develop interactive digital media within the State. Examples of eligible interactive digital media products include those that:

- Are used in electronic media distribution, including file download over the Internet;
- Contain a computer-controlled virtual universe with which an individual who uses the program may interact in order to achieve a goal; and/or
- Contain a significant amount of at least three of the following five types of data: (1) animated images, (2) fixed images, (3) sound, (4) text, and (5) 3-D geometry. This includes game platforms, game engines, and games that have both entertainment and serious applications.

Tax credits are awarded for business expenses that exceed \$50,000 that are paid during the taxable year in development phases, and may not exceed \$7.5 million. Products for the following activities are ineligible for tax credits:

- Developed by the taxpayer for internal use;
- Interpersonal communications service, such as video conferencing, wireless telecommunications, a text-based channel, or a chat room;
- Internet site that is primarily static and primarily designed to provide information about one or more persons, businesses, companies, or firms;
- Gambling or casino game;
- Political advertising; and,
- Contains material that is obscene or that is harmful to minors.

Programs Offered through Partnerships and Collaboration across Sectors

Several incentive programs reviewed were funded or administered jointly across entities from multiple sectors including universities, nonprofits, foundations, private investment companies and local municipalities. Often the intent of larger partnerships is to create an industry cluster. Examples of incentive programs offered through partnerships and collaboration across sectors could be found in San Diego, Boston, Seattle, and New York.

San Diego Cleantech Initiative

In 2007, the City of San Diego launched a new Cleantech (Clean Technology) Initiative in an effort to promote the attraction, expansion and retention of businesses that develop technologies and products that provide environmentally sustainable solutions. The Initiative seeks to develop an emerging cluster, or partnerships with public and private entities, that will create new job opportunities in these emerging industries.

The von Liebig Center for Entrepreneurism and Technology Advancement at the University of California, San Diego and the City of San Diego announced the first program in the Cleantech Initiative. The partnership will provide business mentoring services and seed funding grants of up to \$50,000 to university faculty members and researchers in the region to accelerate the transition of their inventions to a commercial venture.

Boston Loan Development Corporation Business Loans

The Boston Loan Development Corporation is a private nonprofit administered by staff of the City of Boston Redevelopment Authority that provides loans of up to \$150,000 for businesses in, or relocating to, the City of Boston. These loans can be used when buying a new business property, constructing an addition to an existing plant, purchasing equipment and machinery, making leasehold improvements or providing working capital.

New York City Entrepreneurial Fund (NYCEF)

New York City created a \$22 million fund to provide NYC-based technology startup companies with early-stage capital. The New York City Economic Development Corporation contributed \$3 million to establish the fund, and FirstMark Capital, a leading New York City-based venture capital firm, will contribute up to an additional \$19 million. Companies can receive up to \$750,000 for the first round of investment.

City of Seattle Grow Seattle Fund

According to a representative from Seattle's Office of Economic Development, most state and local economic development incentive programs are federally based programs due to the prohibition of general funds to be used for incentive programs by the State of Washington Constitution.

The Grow Seattle Fund, available for small- to medium-sized businesses that need capital to grow, is an example of a program jointly funded by various entities due to the Washington State Constitution restrictions on general funds. The fund is administered by the Seattle Office of Economic Development in partnership with the National Development Council's Grow America

Fund¹⁶ and the Seattle Foundation. The Grow Seattle Fund offers long-term, below-market rate financing for growing small businesses. Loans finance a broad range of business needs such as working capital, machinery and equipment purchases, tenant improvements and real estate acquisition. Each loan can be customized to complement individual businesses' financing needs due to access to flexible underwriting and low interest rates. Financing ranges from \$100,000 - \$5,000,000.

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Catherine Stefani

¹⁶ The National Development Council is the oldest national nonprofit community development organization in the United States.