CITY OF EL PASO, TEXAS
AGENDA ITEM
DEPARTMENT HEAD'S SUMMARY FORM

DEPARTMENT: **City Development Department**

AGENDA DATE: **Regular Agenda – June 19, 2012**

CONTACT PERSON/PHONE NUMBER: **Mathew McElroy, Director, City Development Department, 541-4193**

DISTRICT(S) AFFECTED: **All Districts**

SUBJECT:
APPROVE a resolution / ordinance / lease to do what? OR AUTHORIZE the City Manager to do what? Be descriptive of what we want Council to approve. Include $ amount if applicable.
Discussion and presentation on a report submitted by the Center for Regional Economic Competitiveness and the University of North Texas' Center for Economic Development and Research that assesses the City of El Paso's incentive programs and policies and provides a list of recommendations on how to better leverage current incentive programs. (All Districts) [City Development Department – Mathew McElroy, Director 915-541-4193]

BACKGROUND / DISCUSSION:
Discussion of the what, why, where, when, and how to enable Council to have reasonably complete description of the contemplated action. This should include attachment of bid tabulation, or ordinance or resolution if appropriate. What are the benefits to the City of this action? What are the citizen concerns?
The Center for Regional Economic Competitiveness and the University of North Texas' Center for Economic Development and Research will provide a presentation on their report, which assesses the City of El Paso's current economic development incentive mix.

PRIOR COUNCIL ACTION:
Has the Council previously considered this item or a closely related one?

N/A

AMOUNT AND SOURCE OF FUNDING:
How will this item be funded? Has the item been budgeted? If so, identify funding source by account numbers and description of account. Does it require a budget transfer?
There will be no impact on the general fund.

BOARD / COMMISSION ACTION:
Enter appropriate comments or N/A
N/A

********************REQUIRED AUTHORIZATION**********************

DEPARTMENT HEAD: ______________________________

(If Department Head Summary Form is initiated by Purchasing, client department should sign also)

Information copy to appropriate Deputy City Manager

Dedicated to Outstanding Customer Service for a Better Community

SERVICE SOLUTIONS SUCCESS

City Development Department

TO: The Honorable Mayor and City Council
Joyce A. Wilson, City Manager

FROM: Mathew McElroy, Director, City Development Department

DATE: June 19, 2012

RE: Discussion and presentation on a report submitted by the Center for Regional Economic Competitiveness and the University of North Texas' Center for Economic Development and Research.

In the report "Moving the Growth Needle: An assessment of Incentive Programs and Policies in El Paso" The Center for Regional Economic Competitiveness and the University of North Texas' Center for Economic Development and Research assesses the City of El Paso's current economic development incentive mix. The report includes an executive summary, introduction and the economic environment in El Paso. A major portion of the report focuses on the City of El Paso's current incentive offerings which then transitions to comparing the City of El Paso's incentive policies to other large cities in Texas and New Mexico. Finally, the report provides key findings and recommendations for the City of El Paso and its economic development partners.

Representatives from the Center for Regional Economic Competitiveness and the University of North Texas' Center for Economic Development and Research will provide a full presentation on the report to City Council on June 19, 2012.

El Paso All-America City 2010

City Development Department
Two Civic Center Plaza – 5th Floor · El Paso, Texas 79901
Phone (915) 541-4622 · Fax (915) 541-4799

City of El Paso's Incentive Programs and Policies

SUMMARY

Prepared by the Center for Regional Economic Competitiveness (CREC), this report "Moving the Growth Needle: An assessment of Incentive Programs and Policies in El Paso," assesses El Paso's current economic development incentives mix and analyzes the role incentives play in the region's overall economic development program, specifically focusing on business recruitment initiatives. Incentives are an important and high-profile component of most economic development efforts.

In terms of personnel and objectives, the report recognizes El Paso is in the process of retooling efforts and realigning economic development priorities. Until this transition is complete, it is difficult for the El Paso region to define the best mix of incentives necessary to support the region's economic development. Currently, City and County of El Paso leaders are seeking to develop a more aggressive and competitive program that will help El Paso compete in a global marketplace for investment.

Given these circumstances, CREC determined that with modest tweaking El Paso's incentives are as competitive as those offered in other cities. Overall, CREC found that El Paso offers a relatively broad range of tax, grant, training, research and investment incentives through state and locally funded programs.

SUPPORTING DOCUMENTATION

El Paso has a comparable number and competitive level of incentives when compared to its natural competitor cities. However, the incentives are not currently deployed with a strong strategic focus nor are they sufficiently large, by themselves, to be a deciding factor for many projects.

Other findings include:

- Because El Paso's incentives are similar to other communities, competition is stiff and it will remain a struggle to "win" projects given the worldwide competition from other locations.
- Other Texas communities appear to have more flexibility in their use of 380/381 programs funds and deploy it in a more strategic manner.
- El Paso's 380/381 wage guidelines may inadvertently limit eligibility for good projects that support overall economic objectives while not truly advancing the cause of higher wages.
- Available incentives designed to encourage real estate redevelopment, especially in the downtown area, are likely to be inadequate. While more robust incentives may be required to overcome the perceived market risk of investing in blighted areas, these incentives must be viewed as one element of an overall strategy, not *the* strategy.

CREC recommends the following seven actions to better leverage existing incentives and meet regional economic development needs:

1. Refine the incentive investment approach to reflect a consensus on strategy;
2. Adapt incentive policies and related industry targets to reflect new market realities;
3. Expand incentives to assist key business growth and formation activities;
4. Develop a more flexible approach with appropriate professional discretion in the use of available incentives;
5. Target use of real estate incentives to a very limited number of areas of regional importance (e.g., the downtown, the Medical Center of the Americas, and pedestrian-oriented mass transit nodes) to help build a critical mass of economic activity more rapidly;
6. Develop a comprehensive set of incentives designed to deploy and enhance the region's large number of underutilized low skill workers;
7. Implement an incentive information management system to support the administration, prioritization, tracking, and reporting of incentives.

CREC CENTER FOR REGIONAL ECONOMIC COMPETITIVENESS

UNIVERSITY OF NORTH TEXAS
CENTER FOR ECONOMIC DEVELOPMENT AND RESEARCH

Moving the Growth Needle:

An Assessment of Incentive Programs and Policies in El Paso

April 30, 2012

Prepared for the City of El Paso

Moving the Growth Needle:

An Assessment of Incentive Programs and Policies in El Paso

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Executive Summary

This report assesses El Paso's current economic development incentives mix and analyzes the role incentives play in the region's overall economic development program, especially for business recruitment initiatives. Incentives are an important and high-profile component of most economic development efforts, but they must be deployed thoughtfully in the context of an overall strategy to create long-term value for a community.

We set out to examine whether El Paso's incentives are as competitive as those offered in other cities and determined that, with modest tweaking, they are. More importantly, however, El Paso's mix of incentives does not represent the most important challenge facing the region's economic development effort. Instead, the region should re-examine its economic development focus in light of current economic realities.

El Paso's economy is in a state of transition. The region has seen strong population and employment growth over the past two decades. The economy has improved since the depths of the Great Recession of 2008-09, but like many other regions, the composition of the economy is fundamentally changing. To illustrate, El Paso's manufacturing employment has dropped dramatically while other sectors, such as education and health services, have grown significantly.

Several elements of the region's economic development efforts are also in transition in terms of personnel and objectives. Further, there appears to be a "debilitating lack of consensus" about regional economic development priorities and, therefore, no strategy to provide a lens through which resources and initiatives can be focused. Moreover, traditional business attraction is no longer the only or best method of creating economic prosperity in many places. It is a tremendous challenge for all involved to adjust economic development programs to support the broader range of businesses that now drive growth in communities like El Paso. With no consensus among academics about the net impact of local incentives, these factors combine to make it very difficult for the El Paso region to define the best mix of incentives that ought to be offered in support of the region's economic development. A primary dilemma is that the debate about the region's incentives appears to focus entirely on economic development recruitment through the lens of traditional site selection approaches that focus on business cost minimization model while overlooking the broader set of growth opportunities that build on El Paso's existing and newly developing regional assets. A narrow focus by leaders can muddle the dialogue about the role of incentives and limit the policy options that should ultimately be considered.

In this context, we have assessed El Paso's incentive offerings while striving to identify the other factors that also influence the effectiveness of these programs. Overall, we have found that **El Paso offers a relatively broad range of tax, grant, training, research, and investment incentives** through state and locally funded programs. El Paso does not offer the most aggressive incentive policies nor is it considerably different than *most* other competitor cities. In fact, this comparative analysis of incentives offered by other peer and competitor locations in Texas, Arizona and New Mexico finds that El Paso is **"squarely in the mix," offering a similar slate of incentives** as the comparison mid-and large-sized cities considered here.

While the overall offerings in general appear competitive, we have also found:

- The target industries for which El Paso is pursuing are more similar to those being sought by other areas and are likely to seek incentives designed to minimize costs. Thus, competition is stiff and often winning communities are required to provide substantial incentives when relocating significant portions of their activities. This competitive environment will likely continue and it will remain a struggle to "win" these types of projects given the worldwide competition from other lower cost locations.
- Other Texas communities appear to have more flexibility in their use of 380/381 program funds and deploy it in a more strategic manner. El Paso implements its 380/381 incentive program in a more formal and structured manner than most competitor cities. Thus, the program may be less useful in winning a project and more practical as a supplement to encourage El Paso area investments.
- El Paso's 380/381 wage guidelines may inadvertently limit eligibility for good projects that support overall economic objectives while not truly advancing the cause of higher wages. To help raise wages for certain low-skill populations, the region may consider creative ways of combining 380/381 incentives with available workforce development programs designed specifically to retain talent, provide skills training, and develop career pathways for the regional.
- Available incentives designed to encourage real estate redevelopment, especially in the downtown area, are likely to be inadequate. While more robust incentives may be required to overcome the perceived market risk of investing in blighted areas, these incentives must be viewed as one element of an overall strategy, not *the* strategy.

In summary, El Paso has a comparable number and competitive level of incentives when compared to its natural competitor cities. However, the incentives are not currently deployed with a strong strategic focus nor are they sufficiently large, by themselves, to be a deciding factor for many projects. This would argue for a re-examination of regional goals for economic development and a refinement of the incentive policy into flexible guidelines that would support those goals.

The following seven actions would better leverage existing incentives and meet regional economic development needs:

1. Refine the incentive investment approach to reflect a consensus on strategy;
2. Adapt incentive policies and related industry targets to reflect new market realities;
3. Expand incentives to assist key business growth and formation activities;
4. Develop a more flexible approach with appropriate professional discretion in the use of available incentives;
5. Target use of real estate incentives to a very limited number of areas of regional importance (e.g., the downtown, the Medical Center of the Americas, and pedestrian-oriented mass transit nodes) to help build a critical mass of economic activity more rapidly;
6. Develop a comprehensive set of incentives designed to deploy and enhance the region's large number of underutilized low skill workers;
7. Implement an incentive information management system to support the administration, prioritization, tracking, and reporting of incentives.

Introduction

As the nation finally begins to build economic momentum, El Paso must be prepared to take full advantage of growth opportunities likely to come its way. Many local leaders are concerned that El Paso is not sufficiently equipped to compete for the limited number of economic development investment opportunities. The primary purpose of this report is to assess how well El Paso's current incentives enable the region to leverage the kinds of investment that the city and county need to create a prosperous future for its citizens.

In his December 2011 report to the city, Dr. Edward Feser contends quite emphatically that El Paso is simply not ready to compete, largely because regional efforts have lost focus, lost capacity, and created a sense of uncertainty among community stakeholders.[1] Dr. Feser further notes that with inadequate staff capacity to support economic development, the City and County are neither ready to address systematic challenges nor to take full advantage of economic development opportunities. His assessment revealed widespread community concern about the effectiveness and implementation of available business incentives and suggested a more detailed analysis was in order.

At the same time, City and County of El Paso leaders have indicated that they are seeking to develop a more aggressive and competitive economic development program. Interviews with some of these leaders underscored agreement that a multi-pronged approach to creating a more impactful economic development initiative will likely begin with recruiting world class professional economic development talent to lead the city's efforts, but that alone will not be sufficient. Economic development leaders also require the right set of economic development strategies and supporting incentive tools that will help El Paso compete in a global marketplace for investment.

There is debate among stakeholders about whether El Paso has a sufficiently aggressive economic development incentives program to adequately support industrial recruitment and business expansion. The questions, however, are more complex: Are available incentives inadequate to actually influence business location decisions? Are available incentives being deployed appropriately or in too scattershot an approach? More importantly, perhaps, does El Paso simply not yet have sufficient consensus around which development opportunities it should incentivize? The truth, in fact, likely reflects aspects of all three conditions. Feser found this to be the case in his research, and this was confirmed in our own interviews.

As a result of his work, Feser recommended that El Paso assess its current incentive mix to ensure that it is competitive while not being exceedingly generous or fiscally unsound. In his study, he further adds that the incentives available should be both flexible and discretionary, allowing economic developers to promote and secure specific types of transformative development projects. In addition, he suggested that the incentive mix should reflect the importance of the city's role in coordinating a portfolio of investments.

[1] Edward Feser, "El Paso Economic Development System Review & Recommendations," December 9, 2011.

This report follows on Feser's recommendation to assess El Paso's incentives. Our research focuses on helping to understand how important El Paso's incentives are (or might be) in influencing business location decisions, examines how those incentives are deployed, and explores how the city determines which private investments should receive support from El Paso through its incentive programs. Furthermore, the report reviews the available mix of incentives to assess their relevance to El Paso's economic development future.

Ultimately, incentives can only be effective if they actually help the region accomplish its strategic priorities. Aggressive and widely used incentives that do not help achieve strategic priorities should not be considered "effective" – even if they are effectively implemented. Furthermore, unused or ineffective incentives may not work because they are designed to achieve an outcome that does not line up well with the economic realities facing El Paso – even if the intended outcomes represent an important policy priority. A key consideration is how well available incentives can influence the types of investments that El Paso leaders seek to promote.

This report provides an overview of the economic environment within which El Paso is competing, including a brief review of how El Paso's economy is performing in a comparative sense. It then reviews the factors that influence business investment and location decisions. The state of Texas as well as the City and County of El Paso have all developed incentive responses so the report examines what those programs are and how they relate to business needs. The report then summarizes the consulting team's conclusions from this analysis and provides recommendations on how El Paso might want to adapt its current incentive programs and policies.

Economic Environment in El Paso

This section provides a brief overview of the economic environment in which the region's economic development program is operating. It addresses recent growth trends, provides some comparisons to peer and competitor communities, and touches on developments in El Paso's key sectors. This context is important for understanding the volume and type of business development the region is likely to see, with implications for the types of sectors and firms for which incentives may come into play.

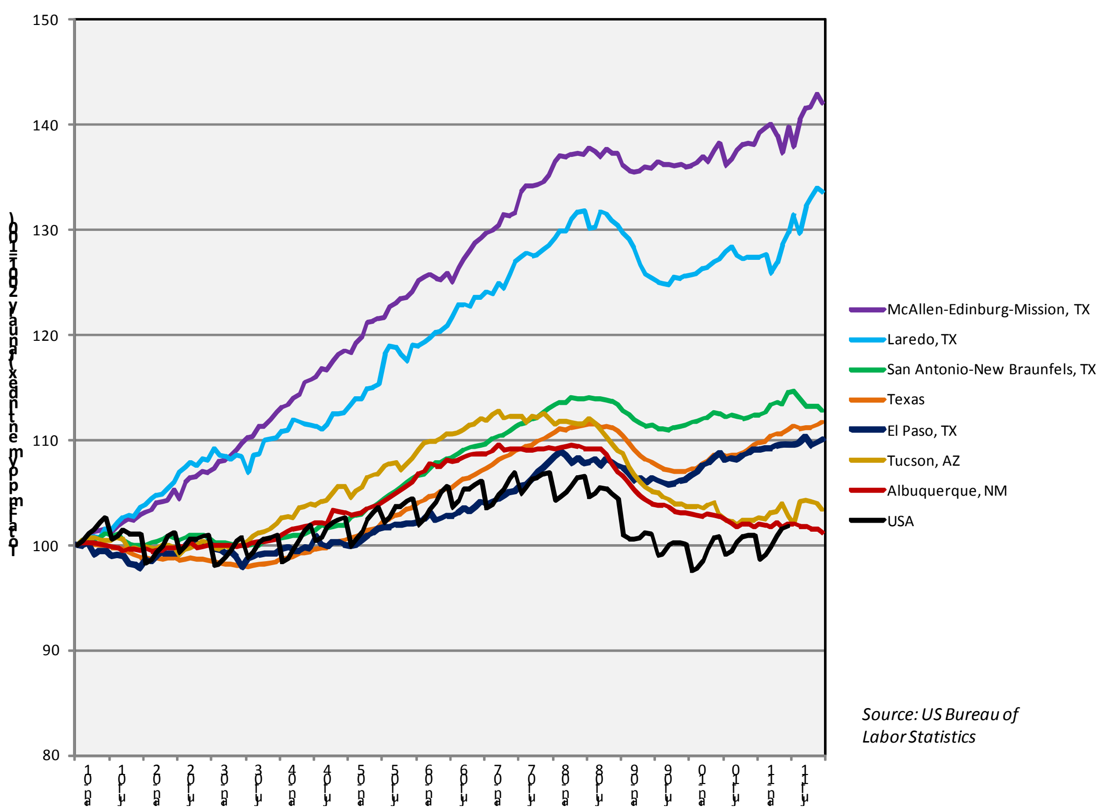
As Feser notes in his report, El Paso is Texas's 5th largest metropolitan area with over 800,000 residents, and has grown more slowly than other large Texas metro areas, but that information alone does not represent the complete picture. The combined Paso del Norte region has approximately 2.5 million people with more than 1.6 million people in Ciudad Juarez.

Despite the increases resulting from the fort Bliss expansion, El Paso County's population growth was considerably slower than other metropolitan areas in the state, but still a strong 17.8 percent since 2000. It actually grew at a rate more comparable to other mid-sized southwestern cities. For instance, Tucson and Albuquerque grew at a 16 percent and 22 percent rate respectively during the 2000s. Feser noted that per capita GDP was $33,754 in 2010, less than 80 percent of the value for all US metropolitan areas as a group. The U.S. Bureau of Economic Analysis also reported that GDP grew in El Paso at about 1 percent annually since 2001 – a rate that was slower than most Texas metro areas and Albuquerque, but similar to San Antonio and slightly faster than Tucson. These data are important since economic and demographic growth feed on one another. Economic development success would help to breed continued growth in economic activity and population. That growth in turn helps to create more economic development opportunities for the region until the region reaches a tipping point – a veritable "virtuous cycle" of growth that then must be managed at a moderate, sustainable pace.

Mirroring the broader economic trends, El Paso's employment also expanded despite significant declines in the manufacturing sector. According to the US Bureau of Labor Statistics (BLS), the El Paso MSA added approximately 26,000 net new jobs since the start of 2001, totaling roughly 283,400 jobs overall. Figure 1 indexes employment change for El Paso, Texas, the US, and several other comparable metropolitan statistical areas (MSAs).

El Paso's employment growth has generally kept pace with employment throughout the State of Texas, but growth in Texas metro areas outpaced the rest of the nation. In fact, a recent study places El Paso second in growth behind only San Antonio during the past year.[2] El Paso followed many national trends prior to the recession, but has definitely been stronger coming out of the recession. This rapid growth during the past year was due to BRAC-related increases at Fort Bliss and the improved competitiveness of the Juarez maquiladoras as prices rise in China.

Figure 1: Employment Change in US, Texas and select metros (January 2001=100)



While El Paso's employment growth rate compares favorably to Texas and the U.S. during the past couple of years, several competing Texas MSAs have grown even more quickly over a longer period of time, particularly two other border cities – McAllen and Laredo. Employment in McAllen is now 42 percent greater than it was in January 2001; Laredo is 33 percent greater. Some of this growth rate can be explained by rapid expansion on a relatively small employment base, and some of it can be explained by the larger forces that have driven growth across the state of Texas. For instance, Laredo added a significant number of jobs because it is directly on the north-south automotive trade corridor between Monterrey and San Antonio. At the same time, Laredo represents a region with a workforce only a third the size of El Paso, so small total employment increases can represent a very large rate of change in that region. On the other hand, McAllen is becoming a much bigger metro area and is growing more rapidly in real terms. El Paso is now 25 percent bigger than McAllen, but in 2001 it was 60 percent bigger. McAllen's location near the eastern population centers close to the Gulf of Mexico has been an advantage for that community. At the same time, El Paso's employment growth rate has been modest but it has kept pace with growth in another major military town – San Antonio. Even so, San Antonio has an employment base that is three times larger than El Paso, so the area has had a larger number of new workers and people to maintain a comparable growth rate.

Looking beyond the state boundaries, two other cities—Albuquerque, NM and Tucson, AZ—can also be considered good comparators to El Paso. Both metro areas are home to more than 350,000 jobs and are therefore slightly larger than El Paso. Both experienced more growth prior to the recession; however, they have also yet to fully recover as has El Paso. Tucson only had three percent more jobs in December 2011 than it did in January 2001; Albuquerque only had one percent more jobs as illustrated in Figure 1.

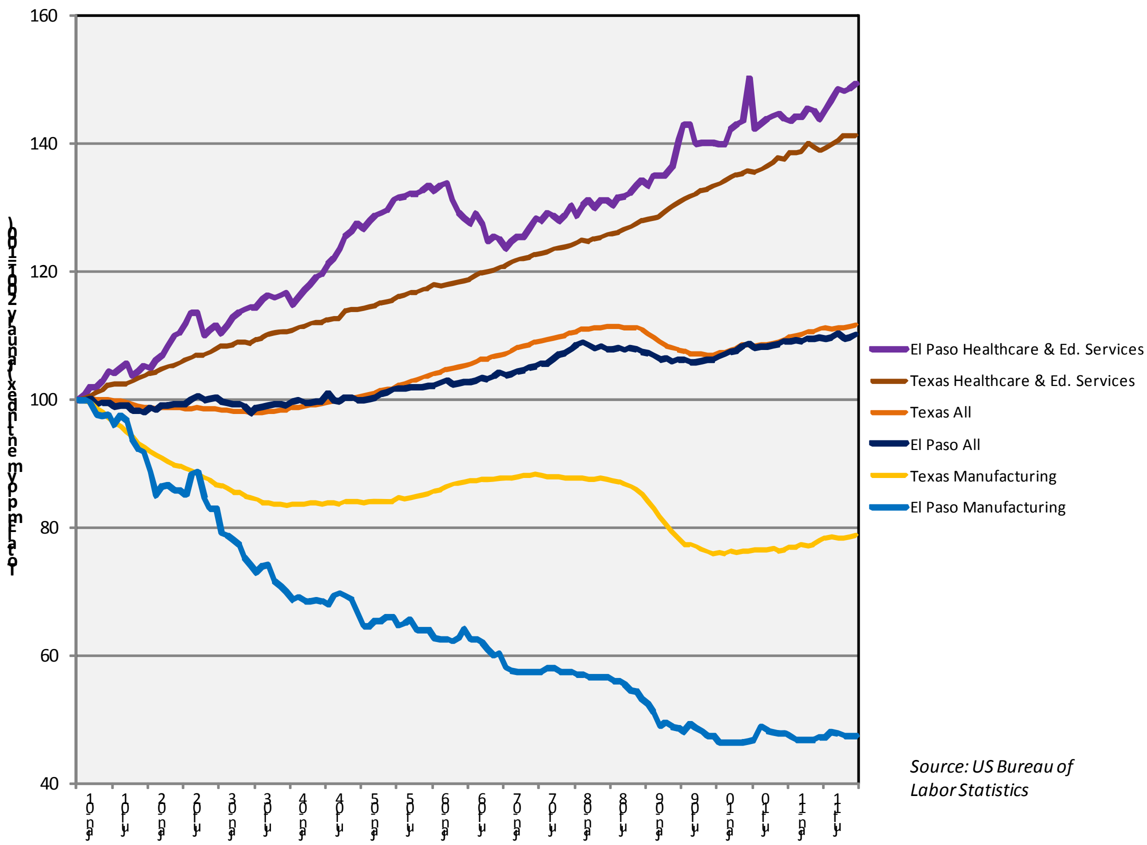
El Paso's soft landing during the Great Recession can be attributed to a great extent to the BRAC-related expansion of Fort Bliss. The influx of soldiers created greater demand for services and for housing, which helped boost the region's construction sector. However, Fort Bliss was not the region's only source of new growth. The region's unique role as an education and health care center were also contributors to the region's recovery. Figure 2 shows the growth trends for both El Paso and Texas, as well as the comparative growth in two key sectors—manufacturing, and healthcare and education services.

The healthcare and education services sector has clearly been a bright spot for the El Paso economy, having grown almost 50 percent since 2001. Employment in this sector climbed from 25,000 in January 2001 to 37,500 by the end of 2011. While some growth is due to the increased demand for health services by an expanding and aging population, the construction of the Paul Foster Medical School affiliated with Texas Tech University, developments at the University of Texas El Paso (UTEP), and greater demand for social services have also driven employment growth.

El Paso's manufacturing sector, however, stands in stark contrast to healthcare and education. While manufacturing employment has declined across the U.S., the manufacturing employment decline in El Paso has been especially dramatic. To illustrate, manufacturing employment in Texas is now 80 percent

[2] Ross C. DeVol, Armen Bedroussian, and Kevin Klowden, "Best Performing Cities 2011: Where America's Jobs Are Created and Sustained," Milken Institute, December 2011.

Figure 2: Employment Change in Key Sectors (January 2001=100)



of its January 2001 level. Nationally, manufacturing employment is about 70 percent its January 2001 level. By comparison, El Paso's manufacturing industry employs about one-half the number that it did in January 2001, shrinking from 35,200 jobs to 16,700 during that 11 year span (see Figure 2).

El Paso's job loss and slower growth can be directly traced to challenges the region has faced due to the mix of manufacturing that located in the city in earlier decades. El Paso's abundance of low-cost workers helped attract low skill manufacturing that sought competitive costs when compared with other U.S. regions. As those manufacturers continued to seek lower cost production locations elsewhere or lost market share to more innovative firms, El Paso lost the jobs those companies provided. This same phenomenon has been replicated in many cities across the Sunbelt where communities competed against northern U.S. locations on cost and later lost that competition to off-shore competitors.

Today, many regional manufacturers have either located across the border in Juarez or have learned to control costs by deploying labor-saving technologies. Even across the border, Juarez has suffered from companies seeking cheaper labor in China and other low cost countries. Maquiladora employment reached its peak in 2000[3] just as China entered the World Trade Organization and began competing for

[3] Carlos Olmedo, Roberto Tinajero, and Mario E. Caire, "Cd. Juarez Manufacturing and El Paso Industry Linkages," Institute for Policy and Economic Development, University of Texas at El Paso, Technical Report No. 2008-04, May 2008.

foreign direct investment. While it was increasing before the recession, manufacturing employment in Juarez has not fully rebounded. Likewise, manufacturing employment in El Paso has stabilized since the recession, but it has not turned upward as it has in other parts of the state.

Even so, success of these industries cannot be fully measured in terms of employment as manufacturing operations increasingly implement process improvements and capital investments that significantly raise productivity, requiring fewer workers even as they increase output and revenue.

Still, much of the El Paso economy's potential lies in its connection to Juarez. As summarized in Dr. Feser's December 2011 report, the city is part of a major cross-border manufacturing, logistics, and distribution hub, remaining heavily dependent on the maquila zone. Everything from services supplied to those companies to consumer products and services provided to the workers at the maquiladoras or to El Paso residents provides a potential source of job growth. For instance, promising links exist with expatriate entrepreneurs choosing to start businesses in El Paso. Unfortunately, a combination of factors including drug-related violence (emphasized in related negative media attention), enhanced border security (increasing cross border travel times and hassle), and greater competition from other low-cost locations around the globe (not only from China but other nations) have combined to diminish the relative advantages of a Juarez location in serving the North American marketplace when compared with other locations.

El Paso's economy therefore is in a state of transition. It is emerging from the recession faster than many places across the country, including several competitor cities like Tucson and Albuquerque. The major investment from DOD in expanding Fort Bliss eased the initial impact of this transition, but the long-term success may rely on the region's ability to expand its attractiveness to health care and education as well as emerging new industries. However, federal and state fiscal trends hint that growth in El Paso's key economic components (e.g., defense, health care, and education) which rely on public dollars may slow in the future. Even so, the economic sectoral job shift is part of a larger transition for the region from its reliance on low-cost talent to another economic future, which remains to be defined.

El Paso's Economic Development Priorities

The major finding of the December 2011 report was that there is a "debilitating lack of consensus" about economic development priorities in the region. Given the scope of economic transition in the Paso del Norte region, it is not surprising that a regional consensus has not been developed on the strategic direction for the economic development program. Certainly, there are many positive ideas, but there is currently no clear agreement on priorities and therefore no true regional strategy through which resources and initiatives may be focused. This section, therefore, summarizes the various approaches to economic development that we identified through interviews and review of past studies.

Business Attraction – REDCo

Drawing on the 2012 REDCo Target Industry Strategy, REDCo focuses on job creation in the region, including Cd Juarez as well as communities in New Mexico and Chihuahua, Mexico.[4] In El Paso, REDCo emphasizes attracting higher quality investment, which includes new jobs that pay above the median county wage. The REDCo strategy also notes that it will strive to attract companies that can benefit from advantages in the region's location; workforce availability, skills, and costs; and overall operating costs in the following target industries:

Automotive Industry: REDCo's recruitment efforts appear to focus on Tier 1 suppliers with hopes of ultimately attracting an assembly plant. Certifying a 1,042 acre site as "ready for development" was a key step in this initiative. However, the 2012-13 strategy notes the best opportunities will continue to be with Tier 2 and 3 suppliers.

Clean Tech Industry: REDCo plans to finalize a strategic plan in 2012 to support the creation of a clean tech industry cluster in the region. In general, the organization expects to focus on opportunities ranging from technology commercialization to recruitment of mature companies in R&D, testing/verification, manufacturing and electricity generation. The 2012-13 strategy emphasizes companies interested in collaboration with regional universities and companies developing and/or producing technologies that are cost-effective.

Defense/Homeland Security: REDCo sees opportunities related to Fort Bliss mission expansion and homeland/border security. The 2012-13 strategy focuses on companies providing surveillance, communications, classification, tracking and monitoring systems, as well as operational support for maintenance/reset, training and simulation, advanced optics and sensing, and test and evaluation systems.

Life Sciences: REDCo focuses on attracting manufacturers of class 2 and class 3 medical devices (especially for general surgery and cardiovascular devices), small- to mid-size contract pharmaceutical manufacturers and producers of generic drugs, and laying the groundwork to recruit biotech R&D operations.

High-Tech Electronics: The recent focus has been on supporting expansion of existing electronics manufacturers, and the 2012-13 strategy continues to emphasize attracting additional projects to existing firms, while also promoting the region to other firms in this industry. REDCo notes that its specific emphasis is on growing R&D/product design capabilities in the region.

Business Development – Other Stakeholders

Four major economic development themes emerged from interviews with business leaders and other stakeholders in the region.

[4] El Paso Regional Economic Development Corporation, "Target Industry Strategy Overview," January 2012.

First, there is a general consensus that the region's healthcare/life sciences assets should be supported for economic development purposes. To date, substantial local efforts have focused on attracting state funding to build and operate the new medical school and to manage development around the new complex. However, beyond those efforts, specific steps that could be taken on a regional level have not yet been articulated or communicated to everyone's satisfaction. Efforts are underway to build on the existing clinical research related to the medical schools, but these steps must extend well beyond the current focus on attracting medical device and contract pharmaceutical manufacturers.

Second, while recognizing that Fort Bliss is a critical and growing asset to the region, there is uncertainty as to how its new missions can translate into economic development opportunities for the region. In particular, the BRAC process has resulted in new assets, but it is unclear how they could be leveraged for future growth in an era of likely defense cutbacks. Specifically, how will near-term national defense policy provide new opportunities to attract more contractors? How has the influx of new personnel resulted in sustainable growth spinoffs for El Paso?

Third, many in the community expressed a strong desire to make downtown El Paso a better place for residents and businesses. It is not clear how the downtown plan does or does not connect with the needs of the region's target industries, the growth of the city's healthcare/life sciences community, efforts to enhance the status of UTEP, or the Fort Bliss expansion. On the other hand, it is also not clear if the incentives and existing economic development programs effectively support downtown redevelopment in the ways intended.

Finally, many in the community expressed general, if sometimes lukewarm, support for REDCo target industries. Clearly, disappointment exists among all in the results of these attraction efforts during the past year. However, it is not clear that area leaders fully appreciate El Paso's competitive advantages (and disadvantages) as a place to do business. Some stakeholders disagree entirely with any emphasis on business recruitment as an effective strategy in this economic environment and others are concerned with the lack of recent success that El Paso has had in this regard. In any case, many stakeholders contend that the incentives that El Paso has available will not likely be effective in changing the region's competitiveness position so they suggest that regional leaders should consider alternatives for promoting economic development.

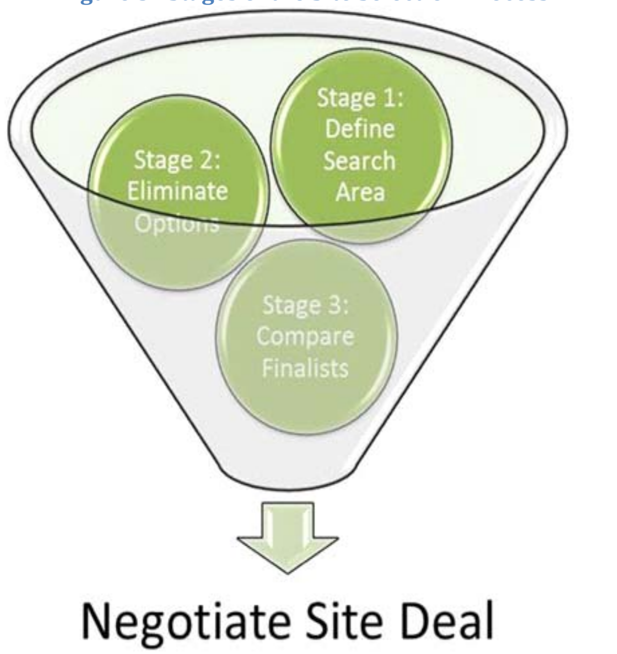
There are many factors that have hindered El Paso's ability to attract new businesses, especially during the difficult economic environment of the past three years. One overarching factor, also referenced in the December 2011 report, is the limited number of opportunities traditional business attraction truly creates for individual regions. The next section provides important context for the assessment of economic development recruitment and business expansion efforts by describing how businesses conducting site searches evaluate communities and the competition every region faces in this fight for new investment. It also suggests an alternative approach that might be employed as a supplement to the region's business development and job creation efforts.

Factors that Influence Business Location Decisions

During the site selection process individual locations are evaluated on a series of critical factors defined by a business's operational needs. In this process, sites and communities are eliminated until a final site is chosen that offers the mix of attributes that most closely align with the company's articulated needs while minimizing risks. This approach to selecting sites for new business activity remains a dominant one in the business expansion and relocation world in which large companies and their consultants manage major, headline-worthy projects. This process therefore remains important to most economic development organizations.

The three stages of this site selection process (Figure 3) are summarized as:

Figure 3: Stages of the Site Selection Process



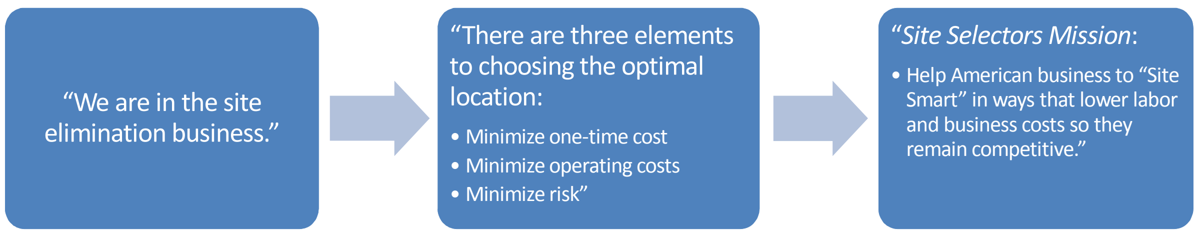
Initial Search Area Definition: Typically, the initial search parameters are set based on the market that the proposed operation is designated to serve – which can be regional, national, or global. The most important initial factors are usually market size and the ability to access the target market area quickly and efficiently. In addition, the area's image as a supportive place to do business weighs heavily in this phase of the process. The outcome of this phase is a list of countries, regions, or communities (depending on the company) that will be further assessed for their suitability for the proposed operation.

Location Elimination: This is based on firm-specific minimum standards of compliance for project-related operational priorities. Typical evaluation criteria are described in the next section. Locations that do not meet these standards are eliminated. During the early elimination stages, a location may also be cut due to 'red flags.' Red flags are factors that are so out of line with the competition that the firm (or its consultants) deems the location as too risky or unacceptable based on the company's initial set of criteria. The outcome of this phase is a short list of communities that offer the best mix of attributes with the fewest risks.

Comparison of Finalists: This stage involves intense scrutiny of a handful of locations, with a heavy emphasis on cost comparisons including interaction with the state and local economic development leaders and business start-up and operational cost modeling. For major projects, site seekers may request proposals from local economic development organizations in response to very specific project needs. With operational needs largely addressed through the previous screening steps, companies turn their attention to finances. The negotiation for discretionary incentives begins at this stage. Executives then select the location that provides the best financial and operational package for their business.

The fundamental emphasis in this process is on eliminating communities from consideration and minimizing business costs (as illustrated in Figure 4). While this site selection model is important to understand, its visibility in the competition for growth often overshadows its ability to deliver. “Winning” a major project through this mechanism represents a gamble that few communities feel they can afford to miss, but also one in which few communities – by definition – actually are able to succeed.

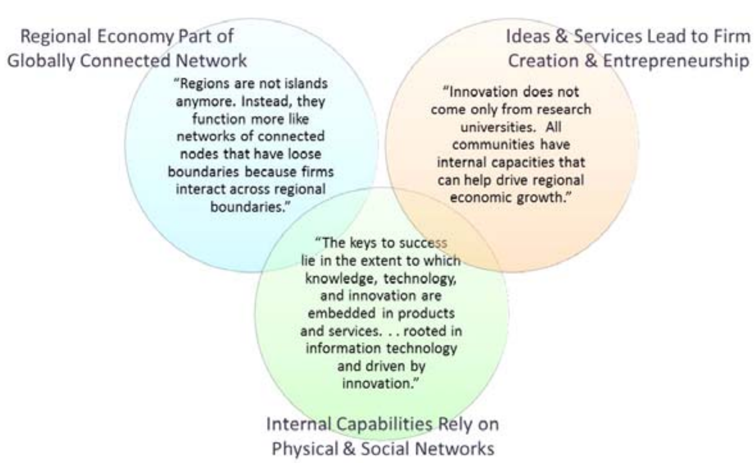
Figure 4: Traditional Cost Minimization Site Selection Approach



Even so, these major projects represent only a narrow band of all economic growth activity. Communities that focus all of their business development attention on this limited set of projects frequently turn a blind eye to the majority of economic activity and growth prospects in their communities. Furthermore, communities competing for these types of projects often view economic development as an isolated, zero-sum activity in which one place wins and another loses. Unfortunately, for those communities focused on this model of economic development, their approach to defining success may inadvertently limit the ways in which economic developers and community leaders view local growth opportunities in our global, connected economy.

As illustrated in Figure 5, an alternative view to business development focuses on identifying key assets, building linkages, and creating new economic activity based on the core competencies of a region. Instead of competing with other locations, many prosperous regions today are increasingly connected to other locations. Further, they generate growth from internal assets, including existing companies, local talent and institutions. So, they focus less on luring these assets from other places, and more on enhancing potential and existing assets to reflect strategic priorities.

Figure 5: Complementary Business Growth Model



In this alternative approach, economic development focuses on helping companies expand their markets and emphasizes the search for growth opportunities rather than obsessing over a competition for businesses that rely on the ability to simply lower business costs. In practice, both the traditional model of minimizing costs (as illustrated by the Traditional Site Selection Approach in Figure 4) and the approach that maximizes business growth opportunities (as described in Figure 5) should be part of local economic development efforts, and these approaches represent a continuum in which communities seek companies that will grow based on internal assets while maintaining a competitive cost environment.

El Paso has taken on economic development efforts that reflect both the Cost Minimization Incentives approach and the Business Growth Maximization model, but these efforts have not been well coordinated. In addition to REDCo's attraction efforts, the work to enhance the status of UTEP, the multi-decade effort to attract a medical school, the investment in small business development and incubation activities, all reflect this business growth model. The dilemma is that the debate about the region's strategic direction and the focus of the conversation about incentives appear to be limited primarily to city and county efforts to promote economic development through a traditional site selection/business cost minimization model. That muddles the dialogue about the role of incentives, and it narrows the tools to a much-too-limited set of options.

Business Location Factors – Evaluation Criteria

In this section, we consider both the traditional cost minimization model and the business growth model as a starting point in assessing how well El Paso is positioned to compete. We will then briefly address key business location factors related to El Paso's target industries, including the role of incentives.

Traditional Cost Minimization Approach

Throughout the site selection process, firms typically examine a number of business location factors at various levels of detail. These factors are the main criteria against which communities are measured. Standards vary as to the respective importance of these factors based on each company's needs. However, locations must be aware of the key issues by which they will be evaluated. If they lag significantly in any one area, there is a very good chance the community will be eliminated from consideration even before they have an opportunity to present their case directly to site selectors. These factors can be organized into eight broad categories:

1. Economic Base
2. Image
3. Workforce
4. Infrastructure and Utilities
5. Quality of Life
6. Available Business Sites
7. Business Climate (including taxes, incentives, and regulations)
8. Economic Development Effort

Table 1: Site Location Factors 2010

Site Location Factors	Ranking by Corporate Executives	Corporate Survey Scores	Ranking of Site Location Consultants	Consultant Survey Scores
Highway Accessibility	1	97.3	3	95.8
Labor Costs	2	91.0	1 Tied	96.8
Tax Exemptions	3	90.9	7	88.4
Occupancy or Construction Costs	4	89.8	8	88.3
State and Local Incentives	5	89.3	I Tied	96.8
Corporate Tax Rate	6	86.3	9	86.4
Availability of Skilled Labor	7	85.9	4	92.6
Inbound/Outbound Shipping Costs	8	82.1	18	74.2
Energy Availability and Costs	9	82.1	5	91.5
Availability of Buildings	10	81.0	10	86.3
Low Union Profile	11	75.4	16	78.9
Environmental Regulations	12	74.8	11	86.2
Availability of Land	13	73.4	12	85.3
Availability of Advanced ICT Services	14	72.9	17	78.5
Expedited or 'fast-track' permitting	15	68.2	14	83.0
Right-to-Work state	16	67.9	20	71.3
Proximity to Major Markets	17	66.4	6	90.5
Proximity to Suppliers	18	63.6	15	79.8
Raw Materials Availability	19	61.5	23	57.7
Availability of Long-Term Financing	20	58.5	19	72.0
Training Programs	21	56.7	21	69.4
Accessibility to Major Airport	22	50.0	13	83.1
Availability of Unskilled Labor	23	45.4	24	47.9
Proximity to Technical University	24	36.1	22	58.5
Railroad Service	25	36.0	25	46.8
Waterway or Oceanport Accessibility	26	21.9	26	27.4

Source: *Area Development* Survey, 2010.

Area Development, a widely circulated magazine targeted to corporate site selectors and economic developers, regularly conducts surveys of corporate executives and site location consultants ranking the importance of items that fall in the above-listed categories. As shown in Table 1: Site Location Factors 2010, these surveys clearly reflect the low-cost approach to site locations. REDCo's own survey of 64 site consultants in 2011 also placed cost factors as the two most important factors in location decisions. These types of site selection survey results explain why state and local economic development officials have long placed a relatively high level of importance on tax rates and incentives, but these findings also reflect the bias of corporate site selectors whose jobs focus on keeping costs as low as possible.

Business owners are likely to have a more expansive view of site selection requirements within the context of broader strategies to grow the business and retain good workers. Representing an understanding of some of these less easily quantifiable factors, *Area Development* recently began highlighting subjective quality of life factors in a separate ranking for site locations (see Table 2: Quality of Life Factors In Site Location Decisions). While there is usually some minor shuffling of the rank order of the business location factors from year to year, the message from the participants in these surveys is clear – incentive offerings/tax breaks are claimed to be important in choosing a given community.

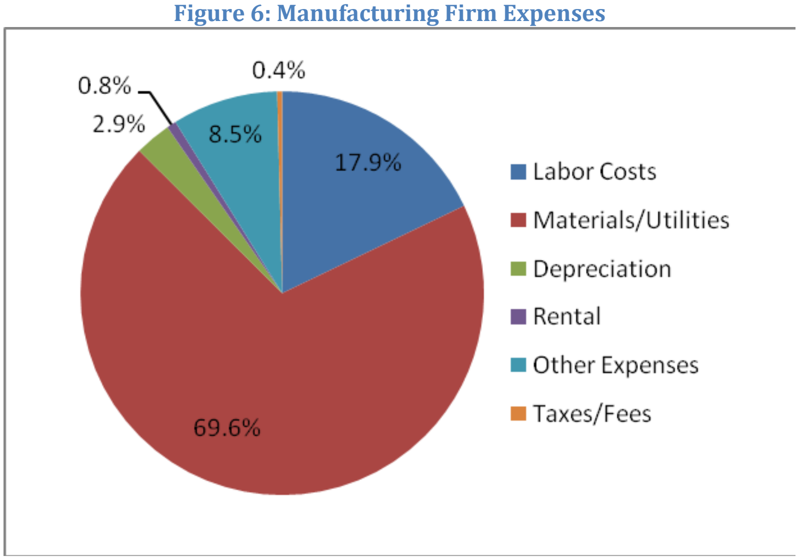
Table 2: Quality of Life Factors In Site Location Decisions

Low Crime Rate	1	84.6
Healthcare Facilities	2	72.2
Housing Costs	3	68.4
Housing Availability	4	66.4
Ratings of Public Schools	5	61.2
Climate	6	56.3
Colleges and Universities in Area	7	53.2
Cultural Opportunities	8	48.7
Recreational Opportunities	9	48.2

Source: Area Development Survey, 2010.

Yet, many academic and professional researchers have found these assertions difficult to support based on assessments of the relative importance of incentive-related expenditures when compared with average firm cost data. For example, given the level of emphasis placed on state and local tax rates and incentives in these survey findings, one would assume that ad-valorem real and business personal property taxes (which are often some of the most significant local incentives offered) represent a substantial component of business expenses. However, the data present a very different picture. Based on the US Census Bureau's Annual Survey of Manufactures in 2010, property taxes and license fees, which are almost exclusively levied by state and local entities, account for only 0.4% (0.004) of total expenses, not including capital expenditures (see Figure 6: Manufacturing Firm Expenses).

Figure 6: Manufacturing Firm Expenses



Source: US Census Bureau, Annual Survey of Manufacturers, 2010

Looking specifically at the manufacturing industries that represent many of El Paso's target industries, we generally find the same results. With the exception of computer storage device manufacturing, which would be part of an overall high tech manufacturing industry target group, property taxes and license fees represent about 0.5% or less of total operating expenses (as illustrated in *Table 3: Property Taxes and License Fees as a Percentage of Total Operating Expenses*). Even computer storage device manufacturers pay a relatively small amount, about 1.1 percent of total operating expenses on property taxes and license fees.

At the core of this debate is whether or not the incentives offered result in the economic growth desired and if they are a cost-effective means of achieving that growth. Certainly, companies will contend that these incentives are important, particularly in the relatively unique circumstances of a company deciding

Table 3: Property Taxes and License Fees as a Percentage of Total Operating Expenses

Industry Group	Property Taxes/Fees % of Operating Expenses
Medical equipment & supplies mfg	0.50%
Surgical and medical instrument mfg	0.43%
Pharmaceutical & medicine mfg	0.43%
Electromedical and electrotherapeutic apparatus mfg	0.38%
Automobile and light duty motor vehicle mfg	0.15%
Motor vehicle parts mfg	0.35%
Turbine and turbine generator set unit mfg	0.33%
Other measuring and controlling device mfg	0.36%
Machine tool (metal cutting types) mfg	0.53%
Automatic environmental control mfg	0.24%
Semiconductor and related device mfg	0.55%
Computer storage device mfg	1.13%
Other computer peripheral equipment mfg	0.22%
Aircraft engine and engine parts mfg	0.26%
Other aircraft parts and auxiliary equipment mfg	0.60%
Guided missile and space vehicle mfg	0.21%
Navigational, measuring, medical, & control instruments mfg	0.32%
Search, detection, and navigation system & instrument mfg	0.29%
Other electrical equipment & component mfg	0.31%

Source: US Department of Commerce, Annual Survey of Manufacturers, 2010

among a narrow list of competing locations. Two academic "meta-studies" that explored the literature are essentially inconclusive.

The first literature review completed by Peters and Fisher addressed this question by synthesizing the findings of previously published articles on the subject.[5] In response to whether or not incentives influence the rate of growth at the local and state-levels, the authors cite the contradictions and conclude that the literature is simply ambiguous as to whether incentives help to attract investment or jobs.[6] The authors reveal that research initially pointed to incentives having a very limited influence on business investment, but recent research incorporating econometric techniques have led to a new consensus. "Lower taxes or more incentives are likely to result in greater economic growth."[7] The authors then noted that several studies later critiqued those models, suggesting problems with the econometric models used in that research.

Further analysis of available research also revealed other problems with incentives as an approach to influencing dynamic business decisions. For example, while tax abatements area common public sector

[5] Alan Peters and Peter Fisher, "The Failures of Economic Development Incentives," Journal of the American Planning Association. 70(1) 27-37. 2004.
[6] Peters and Fisher, 2004, p. 32
[7] Peters and Fisher, 2004, p. 29

incentive tool, Peters and Fisher's research suggested that this activity represents a relatively minimal portion of a company's cost of doing business when compared with labor and other costs. Moreover, the increased corporate income tax that results from the abatement can offset a significant portion of the local incentive.

A second literature review conducted by Tim Bartik in 2005 focused on offering potential solutions to the "problems" that incentives create.[8] Bartik is even more conflicted in his assessment of the use of incentives, citing research that demonstrates them to be both beneficial and wasteful depending on how they are used and at what level of government they are issued. Bartik acknowledges that companies are more mobile now than in the past and argues that a pragmatic assessment must recognize that increased employment can result in positive public benefits. However, the author is wary of business interests dominating the discussion, local policymakers not fully understanding the economic dynamics of incentive packages, and federal government involvement interfering with decision-making at the local and state levels through regulation. He suggests that incentive reforms should focus on helping policy makers to make decisions on improved information in a more transparent way. For instance, he recommends placing budget constraints on incentive investments, expanding transparency of the decision-making process, and implementing clearly articulated and enforceable performance requirements.

Our point here is that tax-based incentives are an important influence in the site selection negotiation process but whether they ultimately make the difference is almost impossible to tell. Furthermore, it is hard to create effective incentives that serve both the business and the community, and it is even harder to assess whether they ultimately cause businesses to make positive decisions about a community that creates a discernible impact on the regional economy. Further, this particular site location factor is generally given too much focus based on the relative value that incentives bring to the bottom line of companies and the relatively small share of ALL the business investment decisions made each year in the region that are actually influenced by public incentive offers. In other words, communities cannot compete on incentives alone, even in the cost-minimization framework because so many other factors may influence the total costs of a particular project much more profoundly.

Internal and Nontraditional Sources of Growth

An alternative, and perhaps more meaningful, approach to business development would be to highlight the business growth model as a complement to the traditional cost minimization model of selecting business sites. Regional competitiveness measures increasingly look beyond incentives and cost minimization to consider the needs for a wider range of business growth opportunities, including smaller operations and local industry clusters, which have not been part of the traditional site selection business. These businesses include knowledge services enterprises, information and creative class firms, entrepreneurs and sole proprietors. Such businesses have little interest in the mainstays of traditional

[8] Tim Bartik, "Solving the Problems of Economic Development Incentives," Growth and Change. 36(2) 139-166. Spring 2005.

economic development – industrial sites and buildings, infrastructure, and incentives. Instead, their primary location concerns revolve around business connections and access to:

- Customers (availability and access to both local and non-local markets, which requires strong transportation and telecommunications networks as well as a sizable regional base),
- Qualified workers (focusing on talent and availability, which generally requires good schools and universities, an appealing quality of life, and a sizable regional base), and
- Networks of supporting businesses.

Table 4: Business Location Factors represents a simplified comparison of the continuum of values that companies may embrace as they factor in a variety of criteria in selecting a location to do business. For highly cost-sensitive businesses with mature product lines, the "traditional site selection model" is likely closest to the approach that site selectors might use. For companies that rely much more on innovative products as the source of their competitive advantage, the "complementary business growth model" represents more of the factors that influence the selection of the best location for their operation.

In practice, there is overlap between the two approaches, and individual businesses will likely make choices based on a combination of factors that do not uniquely fall into either category. On the one hand, companies that are most influenced by the factors identified in the traditional site selection model

Table 4: Business Location Factors

Business Location Factors	Traditional Site Selection Model *Most Common Types of Businesses:* Manufacturing, distribution, and back office operations	Complementary Business Growth Model *Most Common Types of Businesses:* Entrepreneurial, knowledge-based and information services operations
Economic Base	Market Growth	Internal Assets
Workforce	Cost; Availability; Skill Sets (occupation and industry); Unionization	Talent (professional/education/creative); Availability and Ability to Attract
Infrastructure	Shipping and power	Telecommunications and passenger travel
Quality of Life	Minor Factor – subjective	Major Factor – subjective
Business Climate	Asset-based businesses: property taxes, corporate taxes; flexibility and speed; avoid high cost, highly regulated locations	Workforce-based businesses: income taxes; flexibility and speed; avoid high cost, highly regulated locations
Property	Sites ready to go, amenities, tenant quality, cost, infrastructure, image, and project "fit."	Leased office space – image, access, cost, building features, nearby amenities
Economic Development Effort	Incentives; site development; infrastructure	Quality of place; networks; financing

Source: Business Development Advisors

are more likely to be operating in a mature industry or market that is much more price-sensitive in considering location options. On the other hand, companies making decisions based on the factors identified in the complementary business growth model tend to be more oriented toward creating a competitive advantage built on growth, innovation, and product or market development. They also tend to be smaller operations and are much more likely to use specialized facilities that are rarely found in a traditional office or industrial park.

Industry-Specific Location Factors

The following section revisits El Paso's business attraction priorities and briefly describes the key location decision factors that generally guide investment decisions in these target industries.

Industry Target: Healthcare/Life Sciences

According to El Paso's Target Industry Strategy Overview (January 2012), near-term recruitment efforts in this sector focus on manufacturers of class 2 medical devices (FDA-provided examples are motorized wheelchairs and pregnancy test kits). REDCo notes that Class 2 devices in the El Paso region include arthroscopic surgical devices and diagnostic/monitoring equipment. Specific business location factors for medical device manufacturers vary widely depending on the company and type of product. Additional information from REDCo suggests that class 3 medical devices are also considered in targeting companies considering investment opportunities in El Paso.

Advanced medical devices: Talent availability and a supportive industry base are essential factors. A critical mass of sector-specific talent in research, engineering, marketing and management is often the primary location factor. Quality of life (to attract and retain a specialized workforce) and a significant level of activity in their specialty area are also important to mitigate the risk of moving to the region, as well as to be connected to others in the field. Access to capital and ability to network with others in both the medical specialty and business fields are typically available in areas that become successful location choices.

Commodity medical devices: For established products that are not research- or technology-driven, traditional site selection factors emphasizing market access and cost containment dominate. Transportation infrastructure, labor, and operating costs are the main drivers. More advanced Class 2 and 3 medical devices are less driven by traditional cost considerations and more likely connected to access to researchers and skilled workers.

Recruitment related to **MCA R&D** is likely to be oriented around attracting individuals with relevant research specialties and/or nascent companies that match regional research strengths, rather than enticing established companies to relocate to the area. Our discussions with MCA suggest that its core research strength is not currently related to medical device development – although potential collaborations between the Foster School of Medicine and both UTEP and New Mexico State University could change this. Supporting this element of the region's life sciences core is a good example where strategy and communication, not traditional incentives, will be the factors determining success. In fact, in many successful life sciences communities, the economic development organizations play a supporting role to the efforts of other specialized business and community leaders tasked with spearheading efforts to expand the sector. [9]

Industry Target: Defense/Aerospace

REDCo's stated 2012 goals include presenting opportunities to companies that provide capabilities compatible with existing systems to enhance surveillance, communications, classification, tracking and monitoring, as well as crossover capabilities to the defense-related operational support for maintenance/reset, training and simulation support, and advanced optics and sensing, as well as test and evaluation systems that include data collection, instrumentation, and analysis.

Major business location factors for firms active in these areas tend to include:

- Proximity to the customers (including contract sites) or decision-makers (e.g., government and prime contractors),
- Proximity to partners,
- Executive air travel options (especially commercial air service),
- Availability of skilled aerospace workers and executives (or the ability to recruit them and their spouses),
- Appropriate sites (especially for major projects),
- Community support,
- Political clout of the congressional delegation, and
- Incentives (particularly related to grants/loans, tax abatements, and workforce training).

Many regions have targeted defense/aerospace/homeland security firms since this sector has seen strong, steady growth even during the recession. However, this kind of growth is not expected to continue at the pace that it did during the past decade due to planned budget cutbacks at the Department of Defense in the wake of the now ended Iraqi war and the soon-to-be completed war in Afghanistan. Therefore, fewer available contract dollars and greater competition for the remaining contracts will likely mean that El Paso –no matter the incentives offered – will be primarily competitive for those projects clearly tied to current or planned activities at Fort Bliss. These are the focus of El Paso's defense industry recruitment efforts, according to the Target Industry Strategy Overview.

Industry Target: Automotive

El Paso's near-term recruitment efforts focus on Tier 1 suppliers, with hopes of attracting an assembly plant in the future. Currently, Texas has only two assembly plants – in Arlington and San Antonio – and these two facilities are the westernmost of any in the U.S. as most recent auto assembly-related site selection activities have concentrated in the areas between South Carolina and Mississippi. Furthermore, during the recession, North American auto sales declined precipitously from a peak of nearly 17 million units per year to a low of 10.7 million in the recession's nadir. Today, sales have climbed back to a more sustainable level of about 13 million units in 2011 and are expected to grow by

[9] Business Development Advisors and CREC, "Organizing for Economic Development: Lessons from Leading Life Sciences Regions," prepared for Detroit Renaissance, July 2008.

about 500,000 in 2012, but the industry continues to have significant overcapacity, given current sales levels. While it is unlikely that a new assembly plant would locate in El Paso at any point in the near future, certainly Tier 2 and 3 suppliers are more likely to be successful in the region.

Business location factors for these automotive suppliers include:

- Access to assembly plants (logistics, collaboration and communication),
- Labor quality and costs,
- Labor relations,
- Transportation access (highway, rail),
- Prepared quality sites with high-capacity, low-cost utility services, and
- Incentives (taxes, training)

Many related companies, especially third-tier suppliers, were decimated during the recession and those that survived often did so by finding new market opportunities. In the short term (for 2012-2013), the best opportunities will continue to be with Tier 2 and 3 suppliers such as those that exist in the region. El Paso provides motor vehicle parts, iron and steel mills, and related ferroalloys to the Juarez maquiladoras. In fact, 17 of the top 20 supplier industries for automotive manufacturers in Juarez are located in El Paso.[10]

Industry Target: Clean Tech

El Paso has focused on clean technologies as an emerging industry of opportunity. The focus has been on two areas viewed as having the greatest local potential: (1) water technologies and (2) alternative energy sources. Water technologies tend to focus on developing and testing technologies related to water conservation, filtration, and desalinization. Tucson – under the leadership of the University of Arizona – is building world class capabilities in this arena and will be an important hub for innovation that will compete with El Paso.

Alternative energy efforts focus on adapting available technologies to the needs of two key markets: Fort Bliss (which seeks to be a leader in the usage of renewable energy within the DOD) and the application of renewable sources to reduce the carbon footprint of data processing centers. Important location decision factors vary by function and company but tend to include:

- Financing/incentives (high-risk firms struggle to attract financing; many communities are targeting alternative energy firms)
- Proximity to customers
- Stringent regulatory requirements help create demand for customers
- Cheap electricity and large parcels of land (for manufacturing large items)
- Transportation infrastructure (rail, highway)
- Relevant manufacturing capacity

[10] Olmedo, Tinajero, and Caire, May 2008.

In sum, national and international competition is fierce to attract the industries that El Paso has targeted. Furthermore, among the activities being sited within the several key target industries (e.g., automotive, medical device makers and electronics, the most likely to consider El Paso seriously as a potential location are the types of mature and cost-sensitive industries that typically placed greater value on incentives and relatively lower operating costs. For other sectors, such as the emerging clean tech sectors, companies seeking new locations may be more cash-hungry and have very uncertain markets, again making the availability of large up-front incentive offers more critical and the risk of failure greater. Many other communities are also competing for these same business activities. At present, business recruitment is both hyper-competitive and tremendously difficult in this environment.

El Paso's Available Incentive Offerings

Traditionally, El Paso competed most effectively for industries such as those targeted by REDCo based on its relative cost advantages, attracting significant levels of investment in manufacturing to the city and county. In an environment in which El Paso had a clear cost advantage, firms often relocated to the area without incentives. However, most of those firms have since moved on to lower cost locations across the border in Mexico or in low cost Asian countries. Today, companies seeking to minimize costs and maximize their locational advantage in North America are pursuing more aggressive cash incentives from state and local governments to reduce risks and improve marginal firm profits. Yet, the value of the public benefit to communities is increasingly being called into question because these companies asking for incentives may be at the greatest risk to the larger economic forces that are transforming their respective industries.

Therefore, El Paso is under pressure to compete more aggressively for businesses, and the region is currently best organized to compete for the types of businesses that often rely on site selection strategies that rely on guaranteed incentives for El Paso to provide a significant cost advantage. At the same time, questions are being raised about whether the community benefits achieved by these incentives are worth the public investment. In particular, economic development efforts have historically focused on attracting and retaining businesses using techniques that seek to help firms minimize costs (through incentives and other techniques). However, more promising efforts may include those that are tied to the availability of unique local institutions or assets, such as the development of the MCA district or the promotion of UTEP business spin-offs.

To truly assess the value of incentives to El Paso's economic development efforts, it is important to examine how existing incentives are designed, how they help El Paso address its economic development challenges, and how private investors are using those incentives to help grow El Paso. The State of Texas provides a particularly aggressive set of incentives in the form of tax incentives and deal closing funds to drive business and job growth in the state. El Paso supplements those efforts with its own incentive programs. In the following section, the most commonly used statewide incentive programs are described followed by local incentive programs.

State Incentive Programs

Texas incentives tend to focus on keeping tax rates low and eliminating business taxes that might create a cost disadvantage. Several programs are most widely cited as important – some available to any company in the state, and some uniquely available to El Paso area companies due to the entire jurisdiction's designation as a distressed area qualified for state enterprise zone benefits.

Tax Incentives

State Sales and Use Tax Exemptions

The state of Texas provides 100 percent exemption from sales or use tax on equipment and material used in the direct manufacturing process, as well as certain pollution-control equipment, and research and development equipment. Available to any manufacturer, an exemption on inventory property taxes is also available for those who repair products for resale. It applies to leased property or purchased machinery, equipment, or accessories. In addition, Texas businesses are exempt from paying state sales and use tax on labor for constructing new facilities and on equipment used in the agricultural or manufacturing production process. Manufacturers also receive a sales and use tax exemption on the electricity and natural gas used in processing or fabricating products. That exemption requires the company to complete a predominant-use study that finds at least 50 percent of the business' electricity or natural gas is used in actually making a physical change to a product.

Freeport Exemption

For companies that ship their products outside the state, Texas offers an optional Freeport exemption on property taxes in communities, such as El Paso, that allow the deduction. Certain types of goods that are imported and detained in Texas for a short period of time can be exempted from inventory taxes if they are shipped out of state within 175 days. The City of El Paso allows businesses to take the Freeport exemption so that, while in the city, inventory may be stored, assembled, manufactured, fabricated, processed, serviced or repaired. According to a report from the Office of the Comptroller, $1.55 billion in value was removed from local taxing units' appraisal rolls in El Paso in 2009. Those 440 projects represent an estimated total of $16 million in abatements from school district taxes.[11] The foregone revenues are offset through the state school funding formula, but data from the County Appraisal Districts on the program's economic or job impact is limited, a key concern of the Office of the Comptroller. Without a closer examination of impacts, an accurate assessment of the scale and scope of abatements is difficult. Given El Paso's location bordering New Mexico, which has no inventory tax, the Freeport exemption can be an important factor in leveling El Paso's corporate tax structure for certain types of firms.

Enterprise Zone Program

In addition, El Paso qualifies as a Texas Enterprise Zone (EZP) due to its historical economic distress. The EZP allows businesses to reduce their tax burden by eliminating state and local sales taxes for companies creating jobs in designated areas. In the Enterprise Zone, companies that make a minimum capital

[11] Texas Comptroller of Public Accounts, "An Analysis of Texas Economic Development Incentives," 2010. http://www.texasahead.org/reports/incentives/pdf/EconomicIncentives.pdf.

investment and create a specified number of jobs are eligible to apply for refunds of state sales and use taxes that were actually paid in the form of machinery and equipment, building materials, taxable services, and electricity or gas purchased for use in the business. The refunds are provided when businesses create jobs that meet pre-determined wage criteria. The tax benefit can range from $2,500 to $7,500 per full-time, permanent job created or retained over a five-year period. These need not be manufacturing enterprises that would otherwise be eligible for the sales and use tax exemption. At least 25 to 35 percent of new employees must live within the enterprise zone (or be economically disadvantaged). Companies located anywhere in El Paso County may receive benefits for retaining jobs within a qualified zone.

Large communities like El Paso may nominate up to nine projects per biennium to receive benefits. The City of El Paso nominated ADP and The Toro Company investments as eligible projects and received refunds of state sales or use taxes in 2008 and 2009. According to state reports, each company invested at least $10 million, and the two companies created at least 510 new jobs as part of their agreement for funding. The total impact may have actually been greater since 2009. In FY 2010, the most recent data currently available, four El Paso companies used the program -- Eagle Family Foods, Inc. with a $4.9 million investment; Helen of Troy, investing $7.9 million; Redcats USA, $1 million; and The Boeing Company, $5 million. In FY 2011 and FY 2012, four more companies used the program, including Western Refining at $250 million, Las Palmas at $16 million, Dish Network at $9.6 million, and Del Sol at $10 million.

Economic Development Refund

Texas offers state tax refunds to compensate for local school property taxes. Property owners are eligible if they have established new businesses in a reinvestment zone or expanded an existing business located in the zone. To be eligible for the refund, the property owner must have increased the business's payroll by at least $3 million or have increased the abated property's appraised value by at least $4 million. Approximately $10 million is spent on this program per year statewide. In 2008, only one El Paso property owner received a tax abatement through the Economic Development Refund program.

Grants/Funds

Texas Enterprise Fund (TEF)

The largest of its kind in the nation, the $190 million TEF is used as a statewide deal-closing fund for companies contemplating jobs and investment in Texas. The funds are used primarily to attract new business to the state or assist with the substantial expansion of an existing business for projects that are considering Texas and at least one other state. Companies can potentially receive grants totaling up to $10,000 per job. ADP received a $3 million TEF award in 2006 (and the funds were paid out in 2007 and 2008) in exchange for making a promised $23.9 million investment and creating more than 1,000 jobs in El Paso.

Texas Skills Development Fund (SDF)

Companies can qualify for customized training grants from the Texas Workforce Commission through the Texas Skills Development Fund. Private for-profit businesses (including private, non-profit hospitals), business consortia, and trade unions can identify a training need and then work with a local community or technical college, the Texas Engineering Extension Service, or a private, non-profit community-based organization in partnership with one of these institutions to develop a specialized training program. Typical training grants are around $1,200 per trainee and are limited to a total reimbursement of $500,000 per project. In 2010, El Paso Community College was awarded nearly $344,000 to provide training for a consortium of nine construction businesses specialized in the fields of solar power energy and green construction. To ensure the businesses in the consortium have the skills to compete in the bid process for the Fort Bliss expansion, El Paso Community College also agreed to develop and implement a curriculum to train workers in photovoltaic design and installation. Qualifying requirements include partners employing participants with wages at or exceeding the local wage for the occupation the training program was designed to facilitate.

Skills for Small Business

The Skills for Small Business targets assistance to businesses with fewer than 100 employees by providing training dollars for full-time or new employees. Full-time employees can receive up to $1,450 to help pay for tuition and fees per new hire. Up to $725 is available for tuition and fees per incumbent employee. Training must be selected from the active course catalog of a Texas public community/technical college or the Texas Engineering Extension Service, but can be in the form of credit, continuing education, on-line, or available unpublished courses. Training must focus on occupations targeted by Workforce Solutions Upper Rio Grande, and employers must agree to pay prevailing local wages for the trainees. Qualifying for the program is similar to the parent SDF program in that an application must be submitted to the Texas Workforce Commission, but the program is designed for companies with fewer than 100 employees and companies must utilize already established courses offered by Texas public community/technical colleges or the Texas Engineering Extension Service.

Texas Emerging Technology Fund (ETF)

This $200 million fund created by the Texas Legislature in 2005 is available to companies that seek to commercialize new technologies. ETF funds can also be used to develop collaborative relationships with higher-education institutions in Texas to leverage federal research grants and to achieve research superiority in certain technologies. The state invested in total $370 million in ETF in the past four fiscal years from 2007 to 2011. To obtain ETF funding, a proposal must be submitted to a Regional Center of Innovation and Commercialization – there are seven in the state. The proposal is then vetted by a 17-member advisory committee of "high-tech leaders, entrepreneurs, and research experts." If the project is judged promising, a recommendation for funding allocation is forwarded to the governor, lieutenant governor, and speaker of the House. The process for making an award can sometimes take years, significantly reducing the appeal of this program for many potential applicants.

Between FY2007 and FY2011, the University of Texas at El Paso collaborated with three El Paso companies to secure approximately $3.25 million in funding from the ETF. Secure Origins, a freight tracking and logistics company, received $2 million in 2007; Mayan Pigments, Inc., received $750,000 in 2008; and TXL Group, a company specialized in thermoelectric generation technology, was awarded

$500,000 in 2008. In addition to the $3.25 million in funding, the ETF also awarded the University of Texas at El Paso's Center for Inland Desalinization Systems $2.1 million in 2008.

Bonds

Industrial Revenue Bonds

The Industrial Revenue Bond (IRB) is designed to provide tax-exempt financing for land and depreciable property for eligible industrial or manufacturing projects. Local industrial development corporations (IDC) issue the bonds. However, all debt on the bonds is paid by businesses under the terms of a lease, sale, or loan agreement. However, the debt is essentially guaranteed by the local jurisdiction so successful IRBs must be approved by both the Governor's Office and the local governing board (or its voters through referenda). Bond repayments are made from the businesses' loan repayments.

Cancer Research Prevention Institute of Texas (CPRIT)

Another resource that is particularly relevant to the MCA project is the Cancer Prevention and Research Institute of Texas (CPRIT). CPRIT has the ability to issue general obligation bonds to fund grants for cancer research and prevention. CPRIT may invest the grants strategically in cancer research, clinical trials, and laboratory facility construction in Texas. CPRIT will issue $3 billion in general obligation bonds over ten years for short-term and long-term projects in the following program areas:

- Cancer Research
- Cancer Research Commercialization
- Cancer Prevention

In order to encourage innovation and impact, CPRIT also offers several funding opportunities for promising cancer research and prevention programs.

Research awards span the spectrum from basic science to translational research and clinical applications and vary in amount and duration from the relatively modest short-term projects targeting early-stage ideas to the complex, multi-year research programs at laboratories and research facilities throughout the state. CPRIT seeks to encourage the commercialization of cancer detection, drugs and devices that demonstrate significant potential through cancer research commercialization awards.

CPRIT also provides several different cancer prevention awards targeting unique projects and new partnerships, especially those employing novel methods to increase the availability of screening services provided and detection of cancer, and ultimately to increase survival rates. In El Paso, CPRIT has funded three major projects: (1) Centro San Vicente study of breast, cervix uteri, colon, and prostate cancer for $1.9 million; (2) a Texas Tech cancer clinical research core facility for $1.5 million; and (3) a $1 million study of prostate cancer's effects on chaperone/beta-catenin interactions.

Local Incentive Programs

El Paso has a variety of incentive programs to encourage private sector investment. Some of those incentives are designed to reduce the costs or risks associated with developing real estate in the city or county while others encourage businesses to relocate, expand, or start in El Paso. This section reviews those incentives and relates them to key economic development priorities.

Chapter 380/381 Incentives

According to Chapters 380 and 381 of the Texas Local Governmental Code, cities and counties respectively can provide grants, loans, or tax rebates for broadly defined economic development purposes. In addition, assistance may also be offered in the form of government services, training, or infrastructure. The Chapter also allows cities and counties to assist private entities in acquiring, leasing, developing, or operating real estate projects. Typically, Chapter 380/381 agreements are used to supplement or close funding gaps for economic development projects and activities.

Chapters 380/381 allow cities and counties to derive funds generated from existing or incremental tax revenues. In El Paso City and County, policies typically only consider the incremental revenue generated from a project. The legislation also allows the cities and counties to issue bonds or other debentures secured by the full faith and credit of the taxing jurisdiction as well as by revenues derived from the economic development project. Because the ultimate source of funds is typically current or anticipated tax revenues, local city or county councils commonly review and approve the proposed investments. In cases in which 380/381 agreements use bonding to pay for the project, the investment often requires a municipal referendum for final approval.

To qualify for an agreement under 380/381, El Paso has established a policy that companies must create a minimum of 25 "quality jobs" with a tiered percentage of the jobs paying from $11/hour to $12.36/hour (representing El Paso's Median County Wage) depending on the industry and location within the city/county. (Program details can be found in Appendix 1.) Most of these programs will carry a term of five to 10 years, and all grants are subject to final approval by votes of City Council (for 380 agreements) or the county commissioners (for 381 agreements). Proposed incentives involve a rebate that typically ranges from 50 to 100 percent of the expected total local tax increments (including property, sales, and other taxes).

The rebate is paid annually once the company certifies that it has fulfilled its promised investment or job creation activity in a given contract year. The largest grant amounts are offered to companies relocating their headquarters to El Paso or making capital investments exceeding $30 million. The total grant is typically calculated using an economic model that estimates the incremental taxes that would be paid to the City or County if the company were to make their proposed investment or create their estimated number of jobs. Unlike most other cities in Texas, El Paso bases the total estimated value of the impact on the company's direct employment plans *in addition to* the expected spin-off impacts resulting from the company's purchases from suppliers and from workers' payroll expenditures. While it can be argued that this holistic rebate strategy captures a more comprehensive impact value of a company, it may result in measurably larger rebates than a competing city might offer. As a matter of practice, however, no 380/381 rebates in El Paso have exceeded the total direct property taxes generated from the project.

Key Business Investment Incentives

In addition to the 380/381 incentive programs, El Paso companies have access to a variety of other federal and state tax incentive programs.

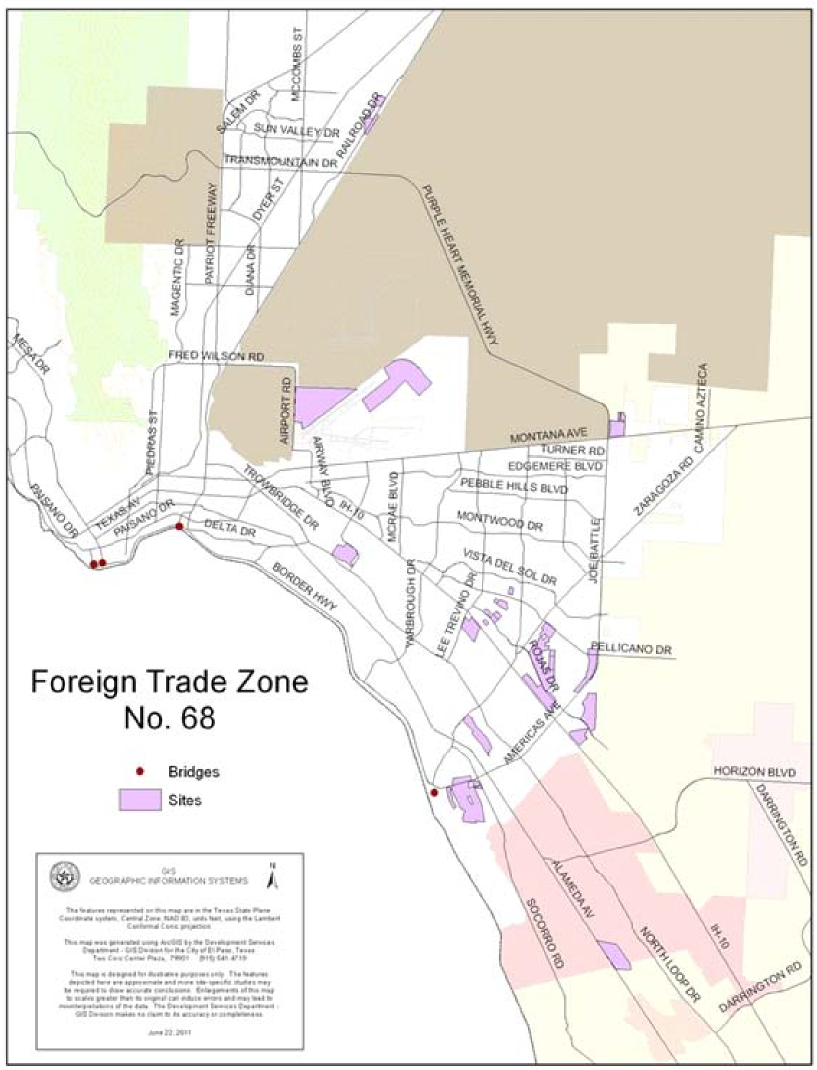
Federal Renewal Communities Initiatives (RCIs)

The Renewal Communities Initiative is an extension of the Federal Empowerment Zone program that has not yet been extended by Congress. In December 2010, the President signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Public Law 111-312) that authorizes the extension of tax incentives, but Congress has not yet done so. Among the program benefits were Federal wage credits for hiring employees living in the renewal community as well as accelerated or increased deductions for businesses investing in property or equipment in the renewal community.

Foreign-Trade Zone (FTZ) #68

Another federal incentive available in El Paso is a Foreign Trade Zone. An FTZ is a secure area located in or near a Port of Entry, legally outside the U.S. Customs territory, where foreign and domestic goods can be brought for storage, manipulation, manufacturing and/ or distribution, without a formal Customs entry or payment of Customs duties. Since the area is legally outside the U.S. Customs Territory, the FTZ Board has authority to approve manufacturing activity based on the public interest. Merchandise enters this area without having to pay government excise types. The key benefits of the zone are that it allows companies to defer paying duties until the items are shipped to customers (to help improve cash flow or to inventory

Figure 7: Foreign Trade Zone No. 68 Sites



seasonal goods). It allows importers to examine their goods before paying duties, eliminating any shipments that might have been destroyed or that might be processed for re-exports. In some cases, the company may save on duties because rates may differ substantially for an imported raw material as compared with the duty owed for that same item when it is part of an assembled product.

Thus, the FTZ allows importers to store, inspect, destroy, exhibit, process, or distribute manufactured goods within the zone without paying duties until the product is brought into the U.S. Furthermore, the zone is not a single site, but an aggregation of a number of locations managed under the FTZ board. For instance, Zone #68 (See Figure 7) consists of 21 sites containing more than 3400 acres in different areas throughout the eastern and central part of the city and county. According to the FTZ administration, more than 70 firms use the FTZ, handling more than 4,000 different items from over 120 countries. The El Paso FTZ represents the largest general purpose zone in the nation. More than $12 billion of goods passed through the zone in 2009. Based on recent information, the city is seeking assistance in creating a plan to spur development in the FTZ by issuing an RFP to study existing regulatory conditions, future demand, and market options to keep the zone competitive in the future.

Key Real Estate Development Incentives

El Paso is also seeking to promote investment in certain parts of the city to try to increase the marginal use of key property and to promote redevelopment of specific areas of the city. For the purposes of this assessment, the primary interest is on efforts to redevelop the downtown and the Medical Center of the Americas district. Following are the key real estate incentives used to promote development in El Paso.

Limited Property Tax Abatement for up to 10 Years

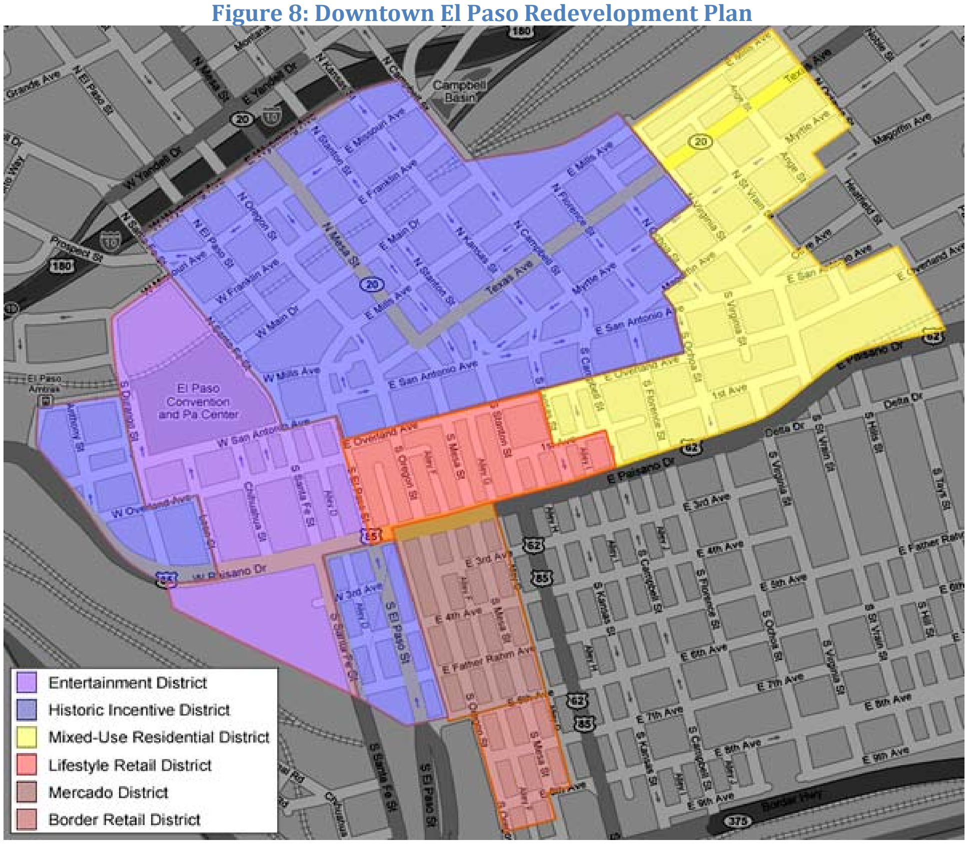
Businesses that locate in reinvestment zones are eligible for abatement of incremental taxes for up to 10 years. Eligible companies are expected to increase real or personal property values by at least $2.5 million and provide new jobs offering a sustainable wage (typically 80 percent of jobs that pay the median county wage and subsidize employee health insurance premiums by at least 50 percent). While available, the program has been largely supplanted in El Paso by the availability of 380 agreements which offer more flexible benefits.

Downtown El Paso Redevelopment Plan Implementation

As the most visible symbol of El Paso's prosperity and the most vital magnet for service businesses, mobile young professional residents, and tourists, local leaders commonly contend that downtown revitalization is critical for the region's long-term success. Raising the brand awareness of El Paso is tied directly to the success of those redevelopment efforts. El Paso developed a land use plan for the downtown in 2006 (as illustrated in Figure 8).

Incentives to revitalize downtown are essential to leverage investment, lower the cost of doing business, and increase the likelihood that businesses and residents will choose downtown and create an attractive 24-hour work-live-play environment. These incentives include a waiver of the fees associated with any planned building improvement. Furthermore, the historic incentive district provides an exemption in incremental taxes that might result from a business investment in the property.

Figure 8: Downtown El Paso Redevelopment Plan



Tax Increment Reinvestment Zone (TIRZ)

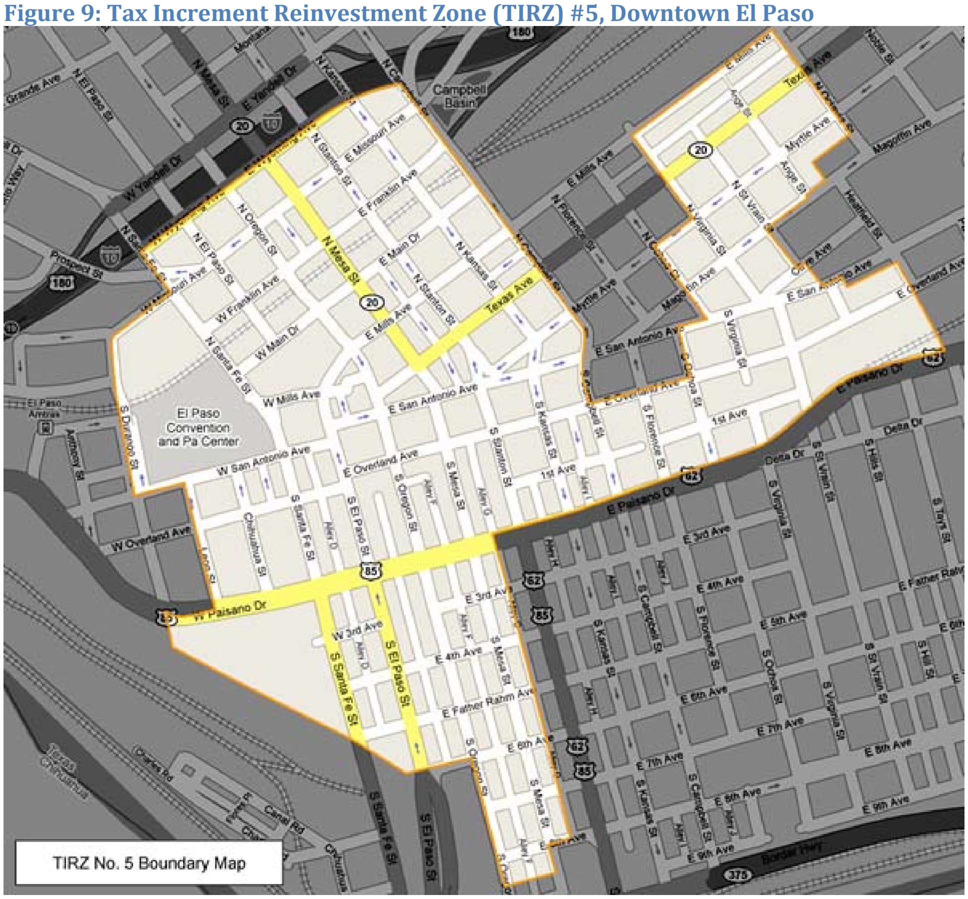
The city has also created a tax increment reinvestment zone that covers much of the same area as the downtown plan. The TIRZ allows the city to recapture a portion of tax revenues to pay for public investments in the area. The downtown TIRZ encompasses approximately 288 acres of the downtown plan. During the TIRZ's first two years in FY 2008 and FY 2009, property values climbed by 40 percent to almost $446 million (see Figure 9). Initial estimates suggested that the TIRZ could generate more than $100 million in tax increment revenues over the 30-year life of the TIRZ[12]

Façade Improvement Program

Through the TIRZ, property owners can also obtain matching grants up to $10,000 to renovate or rehabilitate their exteriors. The goal is to help improve the appearance of downtown properties. The funds can be used for a wide variety of purposes including signage, painting, removing exterior finishes, replacing doors and windows, installing new awnings or lighting, or reconfiguring entrances. Funds for the program are managed through the City and the Downtown Management District. Because limited funds are available, property owners must pre-apply and receive approval before requesting a reimbursement.

[12] *Implementation of the El Paso Downtown 2015 Plan: Phase Two*, presented by Marcus Jahns & Associates, TXP, and Gateway Planning Group, July 30, 2008.

Figure 9: Tax Increment Reinvestment Zone (TIRZ) #5, Downtown El Paso



Sales & Use Tax Rebate Program

Extended to 2022, the City provides a sales tax rebate for labor and materials used in remodeling, rebuilding, or constructing a structure in downtown. Designed to encourage major investments, the program requires that property owners spend at least $50,000 on the renovation to be eligible.

Green Building Grant Program

Available city-wide, the City of El Paso offers grants to help reimburse part of the cost to developers seeking to achieve LEED certification from the US Green Building Council for qualified building renovations. Grant awards initially were proposed to range from $50,000 for new LEED-certified construction projects to $200,000 for LEED-platinum certified projects. Originally created in 2007 and revised in 2010, the program has not yet been utilized. So, in April 2012, the city proposed easing the program’s eligibility standards to allow projects to qualify for grants based on a sliding scale for the “Energy and Atmosphere” section of the LEED project checklist. In addition, smaller projects located in the downtown plan area or a transit pedestrian area would also qualify. Finally, the city also proposed to allow for 20 percent of the grant to be provided to help defray upfront soft costs for qualified projects.

Federal New Markets Tax Credit (NMTC) Program

Investors can take a credit against their federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). These entities must use essentially all of their equity for investments in low-income communities like El Paso. An investor can take a credit for 39 percent of the investment cost over a seven-year period – with 5 percent per year in the first three years and 6 percent per year during the following four years. The NMTC provides resources bridge financing gaps on key transformational projects and create an opportunity for investors, businesses, and communities to partner in key redevelopments. The first NMTC project financed in El Paso was the Anson Mills Building at San Jacinto Square in downtown.

Building and Zone Code Incentives

The City of El Paso has adopted the International Existing Building Code, a developer friendly code that allows for improvements that consider the design limitations of older buildings to encourage adaptive reuse by allowing different levels of modification to existing structures. The City also has a new zoning code that promotes mixed-use development and allows for greater development flexibility for adaptive reuse and mixed-use projects. Furthermore, on a case-by-case basis, the City will also work with a company to help expedite plan reviews and permitting.

Comparative Incentive Policies

For the narrow band of projects that do require incentives, locally funded financial incentives can be an important part of the overall incentive package offered to a prospective employer. Although often not the primary reason a prospective employer will select a certain location for development or expansion, incentives certainly may play a role in influencing certain decisions. City incentives in Texas primarily take the form of loans or grants facilitated by current or projected local tax refunds offered through the State's 380 Agreement provision. Local incentives offered by cities outside of Texas are handled differently, sometimes relying more on state programs. In either case, cities compete with each other to offer the most attractive incentive packages while tying the incentives to stipulations that must be met by potential recipients.

A close examination of the competitive landscape through the lens of city incentives finds El Paso to be squarely in the mix. El Paso offers similar incentives as other large Texas cities while remaining competitive with cities outside of the state such as Albuquerque and Tucson. A summary of this comparison is provided in Table 5: Summary of Comparative Incentive Policies between El Paso and Selected Competitors. Additional details of the incentive programs offered by these cities can be found in Appendix 1.

The principal variation amongst Texas cities is the requirements placed on potential employers to receive incentives. The level of detail in these stipulations often reflects whether or not the city has a formal economic development policy in place governing the incentive. For example, San Antonio has a formal policy that requires potential employers to have 70 percent of its employees earning an estimated $13.36 an hour in order to receive incentives. The City and County of El Paso follow a similar path by formally stating that potential employers must create a minimum of 25 jobs with a tiered

Table 5: Summary of Comparative Incentive Policies between El Paso and Selected Competitors

	Incentive Rules Specified in Policy or Guidelines	Summary of Incentive Benefits	Industry Targets, if any	Wage Requirements, if any
El Paso	Policy	50-100% refund of property or sales tax	None specified	Median County Wage ($13.36/hour) Health insurance required with 50% employer match
Austin	Guidelines	Tax rebates or abatements, other	None specified	Negotiated
Dallas	Not Specified	Tax rebates or abatements, fee waivers		Negotiated
Houston	Not Specified	Tax rebates or abatements, fee waivers, land swaps	None specified	Negotiated
Laredo	Guidelines	Tax rebates or abatements, fee waivers	None specified	Most to jobs paying at least $13 an hour, negotiated
McAllen	Guidelines	Tax rebates or abatements, fee waivers	None specified	At least $12 an hour, but exceptions can be negotiated
San Antonio	Policy	Tax rebates or abatements, fee waivers, land swaps, grants	None specified	70% of its employees earning the BLS base wage estimated at $13.36 an hour; wage varies by industry (e.g., mfg is $13.94/hour)
Albuquerque	Policy	Industrial Revenue Bonds		IRB program requires that jobs to "meet or exceed the median wage for similar jobs in the community"
Tucson	Policy	Tax rebates or abatements, fee waivers	Invest $5M or more in new/expanded facilities within City limits Create at least of 25 new, primary, non-retail jobs paying at least 150% of mean annual Tucson MSA wage (currently ~$60K)	Employer must ensure that 51% of all local company employees earn at least 150% of mean annual earnings for the Tucson MSA and employer must pay 75% of each employee's health care costs

percentage of them (depending on industry and location) paying from $11 an hour to $12.36 an hour (based on El Paso's current Median County Wage).

Many cities require companies receiving incentive benefits to create better than average jobs. For example, Laredo and McAllen use their 380 agreements to help companies creating jobs paying at least $12 to $13 per hour. However, most cities have no formal policies. Instead, they treat proposed incentive deals on a case-by-case basis. Dallas, Austin, and Houston offer incentives tied to job creation, but tailor their policies to the needs of their applicants. This freedom allows for greater local consideration about how the potential employer might benefit the city. For instance, a grocery store in a distressed area may offer few high wage jobs, but its presence could be a catalyst for neighborhood redevelopment and offer much-needed shopping options for residents. On the other hand, incentives offered to certain types of companies might only make sense if the wages they offer are well above the city's median. In all the comparator Texas cities examined for this study, incentives offered must ultimately be approved by their respective city councils.

Outside Texas, two other comparator cities examined were Albuquerque and Tucson. These cities represent both ends of the incentives policy spectrum. Albuquerque's incentives are largely established and managed by the state, but what the city does offer are not governed by a formal policy. Instead, Albuquerque's economic development staff members are directed to provide assistance that result in jobs that meet or exceed the median wage for other *similar jobs* in the community." Tucson's main incentive program is the "Primary Jobs Incentive Program," and it is governed by much more formal policy guidance. The program is focused on capital investment that generates jobs offering both adequate wages and health insurance. However, Tucson, and Arizona in general, take a fiscally conservative approach to making incentives available, which affects the nature and limitations on their offerings.

Certainly, examples exist of communities that have much more generous incentive policies and larger deal closing funds. For instance, many smaller Texas cities have created deal closing funds from their Section 4A or 4B sales tax programs. Because El Paso (and most other large Texas cities) have reached their constitutional sales tax rate cap of 8.25 percent, El Paso is not eligible for this program. The city has opted to allocate one-half cent of its sales tax cap to the public transit system. This is a similar choice that other large Texas cities have made, meaning that El Paso and those other large cities have a comparative advantage for projects that require accessibility to public transportation and related amenities attractive to companies seeking an urbanized environment. However, they do not have the same flexibility as smaller Texas communities or suburban cities, which have opted to allocate flexible 4a and 4b sales tax dollars for economic development initiatives rather than public transit or other urban priorities.

Findings

The assignment in this study is to assess whether El Paso has an appropriate mix of competitive incentives to encourage growth. The challenge is to have appropriately potent incentives that reflect the strategic priorities of the community. Based on our observations, differences of opinion on what those priorities are (or ought to be) among economic development stakeholders has contributed to a sense of dissatisfaction with current economic development efforts. Among stakeholders who believe that economic development investments should generate more activity, there is impatience that the available incentives are not generating more successful locations. At the same time, other stakeholders believe that El Paso should take a completely different approach, focused on growing the regional economy based on existing businesses and available assets to create more economic impact.

El Paso's success, if measured in terms of employment growth, is a mixed picture. Overall, El Paso's growth has followed national and state trends. However, in the past couple of years, job growth has relied on Fort Bliss and the relative competitiveness of the area's maquiladoras with increased Chinese labor costs. Compared to its Texas border competitors, however, El Paso has substantially lagged McAllen and Laredo in job growth rates. More importantly, El Paso has also been undergoing a significant economic transition, losing half its manufacturing jobs during the past decade (and regaining only a limited amount since the economic recovery began). Those losses have created a cohort of jobseekers lacking the skills currently in demand. While that decline has stabilized in the past couple of years as manufacturers have made a national comeback, few net new jobs are being created. Furthermore, the new jobs available are much more technology-intensive. At the same time, market forces and public investments have sparked substantial growth in the education and health care sector, professional services, and defense-related activities.

Through its work, REDCo has identified key business attraction targets for development including automotive manufacturing (suppliers), clean water and renewable energy technologies, defense/homeland security, life sciences (emphasizing medical devices), and high-tech electronics. These targets build on the region's traditional advantages in manufacturing derived from access to relatively lower-cost labor (especially available in the maquiladoras), or they seek to build on large public investments in higher education (e.g., UTEP), health care (e.g., the medical school), and defense (e.g., Fort Bliss).

Incentives have also tended to focus on firms looking primarily for cost advantages in their site locations. However, as the maquilas have lost their cost advantage to Asian companies, a different approach to regional economic development, such as that described by the "business growth model," may be needed to complement traditional development strategies. This is especially true for growth targets that are building on the region's asset base of education, health care, and defense. For instance, the medical school may provide a strong foundation for building companies, but currently has only limited capacity for core cancer and diabetes research areas and no existing research capacity in the economic development-targeted areas of medical devices or pharmaceutical manufacturing.

Our assessment of incentives must first account for the influence of market forces on opportunities available to El Paso, including not only efforts to attract outside investment to the region, but also efforts to encourage new investment and growth by companies already located here. The current incentive mix does not align with the needs of these types of targeted investments. Even so, the region has had modest economic success so the lack of a competitive mix of incentives alone does not appear to be the impediment. Instead, the economic development emphasis may need to adapt to reflect current economic realities. In general, sound economic fundamentals – a strong pro-business climate, superior infrastructure, strong civic and entrepreneurial networks, and a world-class talent base – have proven to be much more important to sustainable economic growth than any individual incentive program.

Since El Paso does not have a clearly articulated economic development plan and strategy, it is hard to determine whether incentives could be more impactful in achieving the most important policy priorities. Thus, the following discussion focuses on how well available incentives do in achieving their intended goals. In examining El Paso's current mix of incentives, they reflect the region's traditional focus on helping manufacturers reduce their costs or on helping real estate investors justify projects that would transform blighted or aging areas of the city. While these incentives align with certain aspects of a broader economic development approach, they are generally used narrowly to attract companies (that have had little market rationale for expanding of late, much less moving to El Paso) or to support real estate development projects that are eligible, but may serve little strategic purpose for the city or region. So, it should come as little surprise that these incentives also do not always align well with the array of sometimes conflicting stakeholder priorities. Those will be addressed as separate topics below by discussing "business incentives" as distinct from "real estate development incentives."

Business Incentives

In examining the current set of business incentive programs – including those available from the state as well as those provided locally – we find that El Paso has a competitive set of tools. While some communities offer a wider range of incentive types, our review of El Paso's competitive cities suggests that El Paso is often able to offer a monetarily similar package of incentives. Even though El Paso's incentive policy does not emphasize direct cash grants to relocating firms, city leaders have the ability to authorize such incentives if the need arises. The assessment also revealed that most of the incentives available were statutory so that the businesses could calculate the benefit in advance. Thus, they likely influence the winnowing process, but rarely help to "win" a company that has selected El Paso as one of its final location options. In addition, El Paso has implemented Section 380/381 agreements by establishing more formalized policies than its competitor cities, which opt to negotiate on a case-by-case basis. This formulaic approach effectively limits the flexibility available to staff in customizing the incentives for the needs of a particular prospect.

Having incentive offerings clearly defined in policies increases transparency to taxpayers *and* to competitors. Other cities, such as Dallas, Houston, or Austin, essentially hold the Section 380 program in abeyance for projects that are viewed as uniquely important for their region. What is eligible and what resources are available are left to staff discretion, but the final approval must still come from the locally elected body. Some parameters may be in order to reflect local priorities, such as emphasizing the quality of the jobs being created, but the strategy is to leave maximum flexibility to the staff negotiator.

The size of these 380/381 deals are relatively small compared with the total investment being made by the company. It is highly unlikely that these projects would not go forward without the 380/381 grant. Instead, they are currently used as supplements for projects in which El Paso has strong fundamentals. They help to ensure that companies meet some social goals – such as providing workers with access to health insurance – or ensure that the region's economic development professionals are focusing their efforts on helping companies offering family-sustaining wages.

As it examines these incentives, El Paso may need to look beyond its traditional manufacturing or related industry targets to incorporate a broader view of the types of businesses that drive economic development, with greater focus on existing local establishments and entrepreneurs. In fact, current policies as stated could prove restrictive or impede some prospects, particularly if they are not traditional companies or projects that fit neatly into the mold of past economic development efforts. Increasingly, smaller companies are expanding operations, and many growth companies may offer entry level career opportunities for workers, but those jobs do not qualify because they begin at a lower pay scale.

In addition, larger projects also do not find 380/381 incentives particularly attractive. Anything larger than the incentives currently available through the 380/381 program would likely require significant state or private sector participation. For instance, the Medical Center of the Americas Foundation received an allocation of the increased utility franchise fee (which was negotiated as a 380/381), and it is already considering options for converting the city's commitment to the district through the 380 program into a larger pool of funds (by bonding future revenues) to support construction of a research facility at MCA. Such a creative approach to capital formation should serve as an example of how 380/381 might be used to support major economic development projects.

Under the current policies, 380/381 agreements can only be provided to companies that pay above median county wage for 80% of their jobs (wage levels as low as $11/hour qualify in targeted distressed areas). This creates a challenge in two ways. First, for some targeted areas the mix of available talent tends to be lower skill, and market conditions suggest that workers cannot expect even $11/hour wages given comparable jobs in the same occupation. Second, it does not recognize that for many El Paso residents, a job can be part of a stepping stone to a better future, even if that job is relatively low paid.

At the higher end of the workforce, a skills mismatch is likely to be a challenge facing the community. Substantial evidence exists to suggest that UTEP graduates (especially the best and brightest) must leave El Paso to find work while companies complain that the graduates they do employ are not up to the task.[13] Research also suggests that industry growth in key industries is required to capture more of the

[13] National Center for Higher Education Management Systems, Higher Education and the Economic Future of El Paso, 2007

talent that is currently exported. [14] The existing set of incentives does not adequately address this fundamental concern, but some programs are designed to provide training support for companies seeking workers. A preliminary assessment of the available Texas Skills Development Fund and the Skills for Small Business programs suggest that they focus on providing sufficient resources to cover an individual course or for short-term training. However, more advanced knowledge or skills require longer periods of time for an individual to acquire. Companies concerned with finding skilled workers often require individuals with more in-depth education or stronger credentials. Thus, the training resources available through the state programs are inadequate to address the mismatch for most companies concerned with finding skilled workers. Furthermore, a major concern expressed in this regard is ensuring that the region's best talent has an opportunity to remain in the community to help area companies compete or to create their own business opportunities. Many highly educated or more skilled individuals do not appear to have a strong connection with industry and end up moving to other regions to find work, which is an issue that REDCo is seeking to document with UTEP.

The city has demonstrated a willingness to show flexibility in the design of incentives as illustrated by the investment of a portion of the utility franchise fee increment to the UTEP Hub of Human Innovation business accelerator program (located in the downtown). With aid from a grant of more than $400,000 in the first year and continued support for several future years, the Hub will serve as an important incubator for new business formation, linked to entrepreneurs emerging from the university. The support appears to focus more on promoting an innovation eco-system to support new business start-ups and entrepreneurial business managers as a supplement to efforts aimed at fulfilling job quality or wage requirements.

Real Estate Incentives

The city also has an interest in achieving economic development objectives that go beyond job creation. Several of the incentives are targeted to alleviating blight or to leverage private investment in targeted areas of the community, especially downtown and the MCA medical districts. Programs like façade improvement programs, tax increment refunds, or historic tax credits will not be sufficient given the substantial market risks associated with investing in the downtown or the medical district.

For instance, the city adopted a downtown redevelopment master plan in 2006, but it has experienced only limited success in the intervening five years. Certainly, a few key projects have moved forward despite the national economic downturn, including the Doubletree Hotel (which received a 380 grant), the Mills Plaza project (using New Markets Tax Credits), and downtown housing (as exemplified by the 1st Avenue Lofts and the Magoffin Park Villa apartments). However, these alone will not likely change the trajectory of downtown growth because they are relatively disconnected from one another.

Incentivizing retail development requires special care. This is illustrated by the decision to provide a 380 grant to a developer seeking to build a retail mall in one part of the city that attracted tenants from

[14] Organisation for Economic Co-operation and Development, Higher Education in Regional and City Development: The Paso del Norte Region, Mexico, and the United States, 2010.

another. On the surface, this does not seem like good policy; however, relocating retail from one area to another may actually be appropriate in certain instances. For instance, if the goal is to concentrate retail in a small area (such as the downtown) as a nucleus for redevelopment, then it may be in the city's best interest to help such a project. Another area of the city of interest for potential relocated retailing activities is the medical district. This could help create an environment that would make the MCA more attractive to developers and prospective companies. Finally, supporting retail to move into or return to distressed areas can address community redevelopment goals when market forces are insufficient to address these needs, but if the entire city is eligible to receive such assistance the dispersed incentive does not help to concentrate activity in preferred areas of the city.

Linking Targets to Incentives

Overall, El Paso's incentive offerings are generally competitive in its marketplace. The level of tax rebates in current 380/381 policies are within the bounds of what other cities offer, though with less flexibility. In some cases, the existing policy may not be sufficient to allow the city to offer incentives that would be sufficient to be win certain projects, though our assessment suggests this would be a relatively rare problem. In other cases, the existing policy could result in an incentive more generous than needed to meet the needs of the prospect.

However, the biggest weakness in a prescribed policy is that it limits the conversation that allows an economic development professional to work with a prospect to achieve an agreement that is in the best interests of the city/county and the business. In addition, the discipline of only offering incentive packages that demonstrate a return on investment to the city is great stewardship of public resources, yet return on investment in economic development is not always pecuniary in nature, and like a business, sometimes investing in a "loss-leader" can be a necessary approach in achieving broader market goals.

Relating existing El Paso incentive programs to identified target industries results in similar observations. In general, the mix of incentives is competitive, though the effectiveness of the policy starts to break down when meeting very specific needs of some industries. Following is an assessment of how existing local incentives relate to targeted industries.

Medical Device Manufacturing: The distinction between advanced manufacturing and commodity-type product segments can mean very different incentives work better for some types of medical device manufacturing than for other types. Advanced manufacturing is likely to be little influenced by the level or even presence of tax-based incentives and usual training programs because they are much more tied to clinical research results and market options. Meanwhile, medical device manufacturers that have achieved commodity status are cost sensitive and therefore more focused on incentives. However, given that property taxes and fees represent one-half of one percent or less of total operating costs, on average, other regional factors such as labor costs and transportation costs will be more important to their choice of locations. Incentives may matter at the margin, but cannot make an otherwise costly location desirable. BioEnterprise (Cleveland, OH) is considered a best practice example of an organization that works effectively to support bioscience businesses, especially device manufacturers. It collaborates with TeamNEO (the regional business attraction group) and JobsOhio on recruitment efforts. While incentives are available via the latter groups, BioEnterprise leads the effort with a more complete set of support activities such as access to professional business, capital, and research networks that are often more meaningful to the industry.

Defense and Homeland Security: The manufacturing segment of this industry often receives substantial incentives from local governments. Getting a large defense contractor/manufacturer to locate in the area would be considered "bagging the buffalo." However, there are locally-based political considerations, such as Congressional committee appointments and the relative influence of key legislators that have more o do with site locations of these industries than would incentives. In addition, the logistics/supply chain needs of the military also translate into contract requirements that include specification of the performance location. REDCo's emphasis on defense contracting is certainly appropriate, but the impact of future Defense Department budget cuts will make this marketplace a bit more uncertain. Incentives may be less of an issue than helping to ensure that companies know about contract opportunities as they arise – especially those contracts intrinsically tied to Fort Bliss operations and support. Other facilities (and their economic development partners, as appropriate) will also be aggressively competing for Defense-related missions that would determine long-term troop levels and potential spin-off impacts. These decisions are rarely made with local incentives in mind.

Automotive Supplier Manufacturing: For many companies, finding qualified people to operate, inspect, calibrate, and maintain machinery is particularly challenging – especially as companies continue to invest in increasingly sophisticated equipment. Training is often an incentive offered to automotive component suppliers along with tax abatements and grants to support capital expenditures. El Paso possesses key locational advantages resulting from the clustering of automotive parts manufacturing along the border that should reinforce and sustain growth as the North American auto industry continues to recover from the Great Recession. Tax incentives may make the decision a bit easier and will help in cases in which suppliers are working with multiple assemblers, but the most important factor driving company locations is proximity to complementary automotive production operations.

Clean Tech: Clean tech firms, given the relative infancy of this industry, are often driven by the need for capital and a need to access emerging market opportunities. Furthermore, Federal and state regulatory policies have been critical in creating market demand, driving clean tech industry growth. This is especially true when combined with the need for more stringent renewable energy portfolio standards that other larger states have when compared with Texas. It is in those states with more stringent standards that greater consumer market demand exists for renewable energy. It may be that El Paso's focus on rebating tax payments is not an attractive option when compared with other communities that would provide direct up-front grants or abatements that improve the company's cash-flow.

Incentive Program Management

Ultimately, concerns about El Paso's current incentive structure relate as much to the narrowness of how it is envisioned and implemented as to how successful it has been. That being said, many stakeholders would like to see a more rigorous assessment of how well the incentives being offered are doing in influencing the kinds of investments envisioned. From a purely fiscal perspective, the 380/381 grants and other tax relief incentives must be rationed to some degree because their use could ultimately diminish available tax receipts as much needed public services and infrastructure demands increase. The City and County have been fairly lenient with the 380/381 program because it uses increments that might not otherwise be available. However, no one is really certain about the total foregone revenues or the project-related increases in service demand because the current reporting system is rather limited.

Available information about the incentives or their impacts is rather fragmented (at best) and not organized into a report or narrative that describes the strategic importance of the investments being made. Consequently, it is difficult to assess whether the current model is working, how much revenue the city or county are foregoing, and what the return on investment impacts have been. Nor is there a system for organizing and reporting the information required to assess the value of the investments.

In the absence of an agreed upon economic development plan that coordinates goals and activities across regional economic development entities, it is unlikely that even the most effective economic development officials could satisfy stakeholders that they are making progress. This lack of consensus regarding economic development goals leads to the observation that El Paso's incentives are not currently deployed with a strong strategic focus, nor are they sufficiently large, by themselves, to make a tremendous difference for many projects. This would argue for a re-examination of the city and county goals for economic development and a refinement of the incentive policy into flexible guidelines that would support those goals in a very strategically targeted way. The following section offers suggestions on how best to proceed.

Recommendations

Based on our research combined with the findings and conclusions, El Paso could take seven actions that would better leverage the city's and county's existing incentives as well as meet economic development needs. These recommended actions are grounded in the finding that any incentives policy should flow from – not drive – a regional economic strategy. In other words, incentives are the last step, not the first step, in business development and attraction.

A regional strategy should not focus exclusively on business attraction, but address a broader range of factors that drive prosperity and growth (such as entrepreneurial development , talent retention, and downtown revitalization, among other factors that must be defined by the region itself). The strategy should then establish economic development priorities that reflect the needs of the entire community. These priorities, in turn, should determine the types of businesses and outcomes that will be the focus of El Paso's economic development programs and policies. In terms of business growth and development, we recommend that programs and policies leverage the region's assets to help existing and new companies maximize their growth potential as well as support to a modest degree the traditional recruitment goals of business cost-minimization. Incentives policy should be defined to encourage businesses to fulfill public priorities as well as meet their own business growth goals.

The seven recommended actions are:

1. Refine the incentive investment approach to reflect a consensus on strategy;
2. Adapt incentive policies and related industry targets to reflect new market realities;
3. Expand incentives to assist key business growth and formation activities;
4. Develop a more flexible approach with appropriate professional discretion in the use of available incentives;
5. Target use of real estate incentives to a very limited number of areas of regional importance (e.g., the downtown, the Medical Center of the Americas, and pedestrian-oriented mass transit nodes) to help build a critical mass of economic activity more rapidly;
6. Develop a comprehensive set of incentives designed to deploy and enhance the region's large number of underutilized low skill workers;
7. Implement an incentive information management system to support the administration, prioritization, tracking, and reporting of incentives.

Following are the recommendations, including rationales and implementation guides for each.

1. Refine incentive investment approach to reflect a consensus on strategy

El Paso's incentive policies should be tied more directly to regional priorities. From our interviews with local leaders, it is difficult to provide a definitive proposal for what the region's incentive policies ought to be simply because there is currently only modest overlap among individuals regarding their priorities.

Gaining consensus will require a regional strategy development process that builds on a common understanding of the challenges facing El Paso and negotiation on how limited resources should be allocated. In point of fact, any compromise will likely reflect a broad array of economic development approaches – from business recruitment and retention to investing in the foundations for a next generation economy. For any of these approaches, different types of incentives will serve an important purpose. Under a strategic plan, incentive policies should more properly embrace companies that are more focused on business growth. Incentives, in general, should aim to help companies that seek an El Paso location because the region's assets more closely align with the company's business growth model (rather than the region offers an advantage over other regions in keeping costs low). These incentives will likely offer longer term benefits for El Paso.

For REDCo, incentives can be particularly important in establishing the baseline in negotiating with companies seeking to relocate to the region. The slowdown in corporate expansions and the desire to increase existing worker productivity rather than make new investments has also reduced the number of new location opportunities, particularly in these industries. Since many other regions are also competing for these same targets, the competition can be fierce so the baseline needs to be particularly attractive for El Paso to even merit consideration. El Paso cannot control the final decision of these companies and should not seek to always be the low cost option. In fact, companies "shopping" for incentives are often not the best investments for a community seeking local benefits in the form of good paying jobs or long-term corporate citizenship.

Consequently, winning these types of competitive recruitment contests is becoming increasingly difficult and the competition itself may prove counterproductive. Furthermore, the cost of incentives to win these contests is rising rapidly, begging the question as to whether the cost of luring a company with incentives may be rising so much that the perceived local benefits may no longer be sufficient to justify the investment required. Keep in mind that this is occurring as El Paso's overall growth continues based on investments being made by companies that have not asked for incentives beyond a strong business climate, sound infrastructure, and quality public services.

In considering incentive policies, REDCo's current business recruitment mission reflects only a limited array of the potential economic development policy options available for consideration. Because REDCo is a highly visible user of El Paso's incentive tools, its perspective is quite important in designing an incentive approach to support attraction efforts. However, other perspectives are also necessary to encourage more investment by existing businesses, entrepreneurs, real estate developers, and even nonprofits or other public institutions. Thus, a complete assessment must recognize the full array of strategic opportunities and the different roles that incentives play in these alternative approaches to economic development.

A clearly articulated economic development strategy would help to better focus the conversation about the importance of incentives in this context and the priorities for investments. Most private sector investments and most job creation occur as a result of many factors other than incentives. In fact, incentives may be more important in response to targeted, tactical opportunities designed to achieve very specific goals – attracting a company that could serve as the nucleus for a new industry;

encouraging investments in talent designed to improve the quality or the wages paid; or targeting private sector capital to very small areas that could provide a tipping point for new development.

Economic development experts and leaders must help stakeholders better understand the relative importance of incentives in these contexts as a tool for creating leverage. Not only does the recommended strategic planning process represent a process for selecting priorities, but it also would provide a mechanism for educating community leaders and communicating with citizens in a way that ensures El Paso is investing in its full portfolio of economic development opportunities. That education should explore El Paso's influence on key business location factors such as the size of consumer markets, the quality of the infrastructure serving the region, the skills of the labor force, the risk tolerance of local entrepreneurs, or the image of the community as a secure place to do business.

2. Adapt incentive policies and related industry targets to reflect new market realities

REDCo's operating strategy analyzes how global economic factors influence a series of key target industries, including the automotive, life sciences, defense/homeland security, clean tech, and high-end electronics sectors. REDCo is also focused on attracting companies to provide operational support and training in the defense sector and clean tech and biotech R&D enterprises. REDCo's Target Industry Strategy Overview also emphasizes the attraction of automotive, medical devices, solar panels, and electronic contract manufacturing operations.

For certain of these targeted industries, growth and business expansion activities are currently quite modest due to limited growth as companies build their capital asset base. For instance El Paso's efforts to recruit medical devices and pharmaceuticals will likely require significant expansion of the links between UTEP's bioengineering capabilities and the Paul Foster Medical School, as well as extensive expansion of research into relevant drugs that lead to local clinical trials. However, this too is an intensely competitive space with existing tier-one research universities aggressively supporting research efforts in these areas in well-established partnership with industry. Growth in this sector in El Paso is possible, but the competition will be fierce, and will not likely focus on traditional incentives, but rather the region's advantage will rely in part on its ability to help UTEP's relevant programs compete more effectively for this research and for industry attention.

Our concern is that El Paso's incentive policies as currently structured and industry targets as currently implemented do not fully take into account the range of business growth opportunities that exist in today's economy. A detailed cluster analysis developed to inform a targeted market assessment and an assessment of relative industry strengths, weaknesses, opportunities, and threats (SWOT) would help to test whether the region's targeted industries are indeed the right ones for El Paso, given the current economic context. A strategic review of the region's relative locational advantages and the selected targeted industries are likely to reveal why the current set of targets may need to shift in light of current market growth trends. This analysis and review should be undertaken as an integral part of a regional strategic planning process because it will inform strategies as well as the incentive tools required.

3. Expand incentives to assist key business growth and formation activities

Assuming a more comprehensive economic development approach that goes beyond current business attraction efforts, the city's incentives should be available to help existing companies expand or new businesses to start. Incentives should be considered invaluable tools to help encourage local investments in existing businesses or potential startups. The Chapter 380/381 program might be useful, but it would need to be refined to allow expanding companies to access the program. For instance, the minimum project size (creating at least 25 jobs) would not likely apply. The wage restriction might also prove problematic for some types of businesses. In other cases, relative electric rates may be a challenge so 380/381 funding might be used to help offset electric utility costs for certain targeted businesses.

If structured appropriately, the 380/381 program might even be adapted to support a bond issuance to generate capital for a revolving loan or loan guarantee fund. The city would use anticipated future increments as collateral for repayment of the bond, with the increased tax payments used to repay the bonds. The bond proceeds would be used to guarantee loans by eligible companies that are selling to new markets or expanding their operations through job creation.

4. Develop a more flexible approach with appropriate professional discretion in the use of available incentives

El Paso's approach to having explicit policies regarding 380/381 agreements support the laudable goal of increasing transparency in the management of public investments. They also serve as notice to some firms that only quality job growth will be supported by the public purse in El Paso. However, in practice, economic incentive negotiations (especially when multiple communities are involved) are usually confidential until a council vote is held, and the openness of El Paso's policies may negatively impact its competitive position by broadcasting terms and conditions to competitors and making the incentive a standing offer rather than a negotiated benefit. With agreed upon guidelines, city and county staff, with the oversight and approval of elected leaders, can protect the public interest in incentive offerings while allowing flexibility to address particular needs of a prospective firm in a way that does not place El Paso at a competitive disadvantage.

There may be opportunities to direct 380/381 grant funding toward activities that are consistent with the company's philosophy and with the community's desire to see improved quality jobs (e.g., promoting use of the funds to subsidize company health insurance contributions or to subsidize slightly better than average industry wages in the early years of the project). This approach might be particularly useful in supporting efforts to attract manufacturing jobs that are encountering stiff global competition and that are seeking easy access to supply the maquiladoras, but it is still unlikely that the total benefit would be so substantial that it helped raise El Paso above other communities when competing on costs.

Ultimately, the key to using the 380/381 agreements to their greatest benefit in supporting business development may be in emphasizing flexibility and having a clearly articulated and agreed upon definition of what constitutes a "quality job." Determining quality jobs requires understanding the context within which the jobs are being created and their benefit to the community. For instance, a "quality job" at the nadir of a recession, provided to residents of a targeted part of the city, or aimed at low-skilled, unemployed jobseekers may differ from one created during boom times, in more prosperous parts of the county, or for more highly educated workers.

This definitional difference means that the process for negotiating and granting incentives should also be contextual. To improve the effectiveness of incentives, greater flexibility to respond to the relative differences that various projects offer is required. El Paso is not unique in this regard. In many communities, professional economic development staff members lead prospect negotiations with companies considering a new local site or an expansion. For the company, this information about their investment plans are typically very closely held secrets until a formal announcement is made. Leakage of this information can provide competitors with an advantage; it can also provide competitor communities an opportunity to approach the company in the midst of the negotiation.

Holding these meetings privately helps both the community and the business to protect competitive information that may be revealed during the negotiation. Once economic development staff have reached a preliminary agreement with the company, they then brief elected officials and their staff (in the strictest confidence) to review the proposed agreement and address concerns about whether local policy guidelines were followed and to ensure that political support exists for an agreement. Maintaining ongoing internal communication in a confidential setting is critical at this stage. Some communities may be able to communicate informally, others need to establish mechanisms – such as an Economic Development Commission – through which proposed incentive deals can be vetted before a public Council meeting. The goal is to address any major political concerns in private before the agreement is submitted so that the company feels that the community is negotiating in good faith once the final approval process occurs.

Ultimately, the proposed project must be brought forward before elected officials of the council for final approval. The contentious negotiations should be addressed before this public setting. Companies view contentious public meetings as anathema to their interests, and the risk of these can severely inhibit the likelihood that a company will make an investment (even if the incentives offered are generous). Thus, the community should create a process that helps the company vet and address potential concerns of elected officials before the proposed incentive comes before the Council for approval. Having a clearly articulated regional strategy that establishes consensus on priorities adopted by all parties – business leaders, community leaders, and elected officials – can help to guide these incentive negotiations and provide a framework for addressing potential conflict before an incentive proposal is made public.

5. *Target use of real estate incentives to a very limited number of areas (e.g., the downtown, the Medical Center of the Americas, and pedestrian-oriented mass transit nodes) to help build a critical mass of economic activity more rapidly*

From our interviews, three areas of El Paso – the downtown, the MCA district, and high volume, pedestrian-oriented transit nodes – were most frequently identified as priority redevelopment areas.

Assuming these comments reflect the consensus opinion of others, then the city and county should focus their limited resources in an effort to build momentum for development of those areas in the short term. The success of these districts is critical to regional economic growth—for very different but complementary reasons. A successful medical district will make it easier to attract world-class talent to the medical school and to its research agenda. A dynamic downtown will build civic pride and improve the image of the community as a travel and tourism destination and more importantly as a vibrant business location with appropriate "buzz" that is attractive to certain types of creative, entrepreneurial and innovation-oriented firms. The mass transit nodes help to build critical mass of development activity, reinforcing the city's commitment to transit. Once these areas reach a "tipping point," a virtuous cycle of continued market-driven development can be expected that would require much less public sector intervention to maintain.

Medical Center of the Americas. Tying the incremental utility franchise fee (through a 380 agreement) to MCA-related development needs provides an important symbol that the city will do what it can to ensure the medical district's success. This model provides an example of how existing Chapter 380 resources might be effectively used to support physical development or redevelopment activities. However, these redevelopment resources will not be enough to make MCA successful. In addition, the region's leaders should reach out to MCA to better understand the resources that are needed to support the attraction of researchers, leverage federal and state investments, or other assistance that may be needed from each group – and which can be reasonably provided – to achieve MCA's growth goals. Many other states (e.g., Georgia, Kentucky, and Arkansas) have statewide "bucks for brains" programs to attract world-class scholars to their major institutions. While Texas once invested in some of this type of activity through the Emerging Technology Fund, that program was never adequate and now no longer exists. El Paso leaders should collaborate with other regions of the state to advocate for such a program in Texas for its emerging universities. If the state cannot be convinced to add such a program, then perhaps, El Paso should work with its private sector to endow a program targeted to local institutions (including UTEP and the Medical School, particularly if those scholars locate their research activities in the MCA district).

Downtown El Paso. Incentives for downtown would be most effective if they were to focus on helping make new economic activity happen. This is especially true since the downtown represents a much greater risk as a pioneer location for retail ventures that might otherwise locate in the Cincinnati Avenue Entertainment District adjacent to UTEP or near Fort Bliss where new personnel deployments have increased demand for restaurants, recreation, and retail shopping. For example, there is usually little justification for incentivizing a grocery store, which pays lower average wages and does not contribute as much to sales tax revenues. However, in redeveloping downtown as a work/live center, it is common for basic retail services to be subsidized until the immediate market area reaches self-sustaining levels of population and activity.

The use of 380/381 funding would also be used more intentionally in conjunction with other real estate development, infrastructure construction, and training programs to create packages of support for the most significant projects. The assistance should be negotiated individually with firms based on their willingness to meet wage goals, their interest in operating in specific targeted locations, and their needs as they seek to compete globally. Limitations on an adapted 380/381 would remain, but they would be less stringent for priority projects located in the targeted downtown or MCA areas. Likewise, the city and county may consider strategies for increasing the incentive in early years of the agreement with subsequent reductions in later years as a way to help address the increased costs associated with riskier investments in these areas or in start-up activities, meaning that 380/381 rebates might be timed to be more generous in the earlier years of the project.

Chapter 380 incentives could be a critical element in revitalizing the downtown into a hybrid district including mixed uses of retail, entertainment, and housing (affordable and market rate). If proactively and aggressively marketed to companies or projects in the downtown, Chapter 380 assistance could help increase the viability of business attraction or new business formation in the downtown. In an effort to provide avenues for employment in startup, retail or entrepreneurial opportunities, the City should explore approaches for using Chapter 380 assistance to provide gap and ancillary financing, rebates, services, and training to individuals seeking to create business opportunities in a targeted area of the downtown. This would entail the City creating a fund to "advance refund" a portion of the anticipated incremental revenues expected for the most highly valued projects as a way to encourage greater private sector risk–taking in the downtown.

While 380 can already be used for certain companies that lease downtown offices, this model also assumes that eligible activities would include retail, restaurants and appropriate entertainment enterprises. Despite the relatively lower wages paid by these types of businesses establishments, they are important complements to the downtown, helping to generate much needed street traffic as well as job and entrepreneurial opportunities for the large number of El Paso's adults that have relatively lower skills. One way to use 380 funding in this environment would be to stipulate that companies paying lower than median wages use the 380 to supplement or offsets costs for fringe benefits such as health insurance, child care, transportation, or training. In certain instances, Chapter 380 rebates might also be used to supplement wages for part-time employees or to rebate all or part of post-secondary tuition or training costs provided to workers.

Furthermore, firms receiving benefits might be required to join a downtown business improvement district (BID) operation that supports marketing, entrepreneurial mentoring, joint purchasing, or essential services (e.g., relief from utility and air conditioning costs, external decoration, event management, supplemental safety services, and area-wide decor attractive to the district's customers) to downtown businesses. While we did not assess the capacities of the current Central Business Association, this BID-like entity might be enhanced with resources to support much greater capacity to help businesses and manage a much more aggressive mix of services targeted to businesses in the downtown. The BID would become something more closely akin to an accelerator program for all downtown businesses.

Mass Transit Nodes. A third area that should also be considered for targeted real estate incentives are those immediately adjacent to major mass transit facilities. The city should evaluate how best to extend its portfolio of incentives, including 380/381 investments, within the "pedestrian shed" (i.e., within walking distance) of major urban transit investments. Fundamentally, the goal of this assistance is to encourage appropriate retail, office, and housing development in these areas.

6. Develop a comprehensive set of incentives designed to deploy and enhance the region's large number of underutilized low skill workers

Any comprehensive economic strategy will need to recognize and leverage the large concentration of low skill, low wage workers. In the short-term, those individuals are likely to continue enduring significant unemployment, but incentives for companies should focus on strategies that allow those workers to improve their skills while working. This might include using Section 380 grant agreements for some low-wage companies to match wage contributions during training periods. The 380 funding might be used by companies that allowed their workers to spend a portion of their paid company time participating in work-related training, especially if that training led to an in-industry promotion, to education at an accredited institution, or to completion of training tied to an industry-recognized credential.

The workforce issues facing El Paso will take many years to address. Efforts to improve skills in the workplace – while workers are on the job – are likely to pay significant dividends as El Paso companies continue their economic transformation. Certainly, these incentives alone will not substantially transform the El Paso labor market in the short term; much more will be needed in making structural education reforms, increasing information about the increasingly critical role of higher education as part of a career pathway, and substantial remedial improvements in basic educational skills.

An important caveat is worth noting at this point. Workforce incentives are a tool to support economic development – not the end in itself. Incentives are used to leverage private behavior in ways that have a public benefit, but they cannot force the private sector (including companies or workers) to engage in behaviors that they do not believe are in their self-interest. Furthermore, incentives should not and cannot substitute for direct public investments in education, training, or career development activities.

7. Implement an incentive information management system to support the administration, prioritization, tracking, and reporting of incentives

Interviews with city and county staff indicate that information about locally controlled incentive programs are maintained and monitored on a case-by-case basis, but there is very little systematic reporting about the actual impacts of these investments. The goal of these recommendations is to expand the use of the 380/381 program and other incentives while also ensuring that they are managed effectively. With such an expansion, the likely cost to the city and county could rise as would the expected benefit. A system needs to be put into place to help local leaders understand this investment and to make more strategic decisions about how best to use those resources.

First, perhaps as part of a regional economic development strategy, the city and county should clearly articulate their agreed upon mission for incentive expenditures and perhaps even set a budget (or anticipated ceiling) for anticipated incentive investments. This budget and mission would give professional staff parameters within which to operate in aggressively using incentives to recruit more companies to locate or expand in certain parts of El Paso and to improve the quality of jobs available as part of that effort.

Our recommendation is that the incentives should be tied to community and economic development goals (related to key priorities such as job creation, new business formation, and increased business investment). For certain areas of the city or county (e.g., the downtown and medical districts), the basic parameters for using the 380/381 incentives (such as wage requirements or use restrictions) would be lessened. Furthermore, the goals would identify the relative importance of leveraging growth from within as well as the need for linking incentive programs to business assistance programs offered through the region's economic development intermediaries.

Second, the city should establish a mechanism for analyzing the impact of individual projects (as well as the entire incentive investment portfolio) by developing a public return on investment model that examines the anticipated costs and benefits associated with individual projects. For certain projects, REDCo currently sponsors an assessment of direct and indirect economic impacts to help determine whether to make an investment using the Section 380/381 program, and if so, how big the investment should be.

REDCo's approach is appropriate, but we recommend a slightly more conservative approach to the analysis by calculating only the direct economic impacts and then assigning an estimated benefit and cost (including potential costs from dislocating existing activities within the city or county) to help in weighting priority investments. This is largely due to methodological challenges in estimating indirect tax generation (as REDCo's approach currently does) and the imprecision that these indirect estimates add to the priority setting process. Currently, estimates of indirect tax revenues, for which a company can be reimbursed, are based on estimates provided by economic input-output models. When these models provide estimates of indirect effects on expected tax payments they are based on average purchasing behavior of companies within that industry across the nation. There is no guarantee that the recipient of the incentive in El Paso is actually sourcing goods and services from local providers at the levels estimated by the impact models. The estimates generated from these models could significantly overstate or understate the level of impact with no practical way to be sure.

Those prospect firms that are estimated to create an expected direct positive fiscal impact (based on the anticipated tax payments of the targeted firm) and are expected to meet other criteria (such as providing certain wage benefits and/or targeted job creation) would be rated highest. If the demand for incentive assistance were ever greater than the Council's budgeted resources, then the rating system would be used to prioritize projects for funding, but if sufficient resources are available, the community may consider projects that rate lower on this scale, assuming they achieve overall economic development goals. The key in setting up this process is to balance the need to be fiscally responsible with the recognition that there may be some net fiscal costs to achieve job creation and other economic development goals. Developing a strong information system that tracks both fiscal and economic impacts of these investments will help staff as well as elected officials to make informed decisions.

As use of the 380/381 program increases, it will be important to maintain a database of current investments that can be used to monitor progress and report outcomes to the city and county leaders. An integrated system that tracks the combined efforts of the city and county would also be invaluable in coordinating investments and in monitoring the different priorities that the two jurisdictions may have.

Conclusion

El Paso needs incentives to compete for certain projects, but more importantly to illustrate the city's business friendly environment. For the most part, incentives are most effective in influencing companies that are considering multiple locations or are "on the fence" about making an investment. Incentives cannot convince a company to invest in El Paso if the business fundamentals are not already in place or if there are perceived or real "flaws" in the business environment.

Incentives are also most effective if they are targeted or customized in some way to address specific needs that are critically important to a company. Different industries have different needs so the incentives may be more or less impactful, depending on the industry. Thus, El Paso's economic development priorities influence how incentives should be designed and implemented. Flexibility and discretion help to ensure that incentives can be adapted to meet different needs for priority clients.

In their current form, El Paso's incentive policies are generally consistent with those available to companies that are comparing El Paso to other large competitor cities. However, the city policies put into place that were initially designed to help manage company requests for the incentives appear to reduce discretion and make it easier for staff to say either yes or no to a company rather than working with the company in ways that might make their investment plans more appealing.

Many existing policies – such as the median wage requirement – are treated almost like statutory requirements rather than guidelines, leaving little flexibility for economic development professionals to acknowledge that unique circumstances may make projects beneficial to El Paso even when they may not necessarily meet all the incentives "eligibility requirements."

For instance, if a low wage company is willing to provide workers with subsidized health insurance, should it be considered for assistance? In essence, more flexible incentives allow the staff to consider how the company's investment might be tweaked to make the investment more beneficial rather than structuring the answer to be a simple yes or no.

Even so, El Paso's incentives are relatively modest in terms of the company's overall cost structure so how might they be used to help a company make an investment more quickly than they might otherwise or to supplement an investment to achieve a broader socioeconomic goal? These questions should help guide the redesign of El Paso's incentives – providing flexible resources to respond to key companies' needs.

With some minor tweaking, El Paso's incentives might be made more flexible – guiding a few companies to make investments that they might not otherwise. ***Unfortunately, however, that does not necessarily mean they will be more impactful.*** As addressed previously in this report, incentives are an important influence in the site selection negotiation process, but it is hard to assess their impact on the regional economy. Many locally derived tax-related incentives are especially small and simply reinforce a company's preferred location choice rather than affecting whether or not a company considers the location. Ultimately, factors like market access, talent availability, technology advantages, infrastructure assets, and even commercial land or executive housing costs are much more likely to drive most location choices than the incentives that El Paso (or any other community can provide).

The exception to this case is the major deal closing fund. Texas provides a unique and lucrative fund relative to other states, but El Paso must compete for those resources with the rest of the state. However, the region has been successful in attracting state funds through other mechanisms. The millions of dollars invested in the medical school represent a form of incentive that helps provide the foundation for a whole new economic sector for the region. The city's resources need to reinforce this two-decade effort while also considering "what's next" for El Paso?

It should come as little surprise that El Paso's economic development efforts have struggled in an environment in which few companies have been making investments in U.S. production activities, particularly for commodities that could be built in low-cost countries. However, some companies have succeeded, even in this economic environment. What has been the secret of that success? Have they figured out "what's next" for their companies? A focus on growth in identified global market niches would represent one possible explanation, and it should be at the core of the exploration for El Paso's economic future.

El Paso's historical niche – access to low-cost manufacturing – has not been a compelling advantage for many years, and it is not likely to be so in the future. Yes, a few companies will continue to locate in the region for that reason, but the strategic question for El Paso is how their limited resources can help to invest in "what's next"? Given intense global competition, the companies that will help El Paso move forward may not come primarily from business recruitment in the current target industries, but will come from internal and nontraditional sources of growth (such as knowledge or professional services businesses, information and creative class firms, and entrepreneurs) that require different services and support. Therefore, El Paso's economic development program (and incentives) should also focus on supporting these types of businesses (many of which are already operating in the community) as they develop new markets, create new products, and access world-class talent. The business recruitment efforts should focus on developing a place that will attract the types of firms concerned more about the market opportunities available in El Paso than the modest incentives that the city or county can provide. Only then will El Paso's economic development efforts – and its incentive investments – be truly successful.

Appendix 1: Incentive Offerings in Selected Comparator Cities

Dallas

This information is from the City of Dallas Office of Economic Development website. Dallas maintains a full service economic development program that leads the City's business and real estate development efforts. The Office supports existing and prospective Dallas businesses and the development and redevelopment of downtown and neighborhoods in southern Dallas. The Office follows a stakeholder supported strategic plan.

City of Dallas Regional Center (CDRC)
The CDRC is dedicated to assisting individuals and their families through the EB-5 immigration process via investment into businesses and development projects located within the Dallas city limits. The CDRC offers a variety of qualified investments to foreign investors that meet or exceed Program requirements, and offer investors features unique to the EB-5 community.

Economic Development Grants
Companies considering a relocation/expansion or new commercial development may be eligible for a grant in lieu of tax abatement or to defray project costs such as: land purchase, building costs, public infrastructure costs, development fees, right of way abandonment fees, loan guarantees, training costs, relocation costs, etc.

Foreign Trade Zone
Dallas' two Foreign Trade Zones allow duty-free importing of foreign-made components that are assembled, manufactured, processed or packaged. Duties are charged when completed products are distributed into the U.S. market. Products for export are not taxed.

Freeport Tax Exemptions
Ad valorem tax exemptions for goods that are detained in Texas for 175 days or less. Incentive depends on location.

Historic Tax Incentives
Abatement of city real property taxes for a period up to 10 years if a building has been designated as a Dallas landmark and a restoration is planned.

Job Training
Workforce development in Dallas is coordinated and implemented by the Dallas County Community College District (DCCCD) and Workforce Solutions Greater Dallas. DCCCD opportunities include: basic skills, GED preparation, and skills enhancement. Workforce facilitates employer access to qualified employees, as well as provides job training, workplace education, child care and educational initiatives.

Municipal Managed Districts
MMDs are special districts that are self-governed, but are approved by the host municipality. Through their fundraising powers they can provide infrastructure and other services within the district according to a district-approved service plan.

Public Improvement Districts
Special districts created by petition to privately fund public improvements or special supplemental services over and above those provided by the City, when such services are supportive of related City investments in capital improvements.

Tax Abatements
City provides tax abatement on the value added to real property or new business personal property.

Tax Increment Financing
Special districts funded with increased tax revenues resulting from new private development. Tax rates are the same as elsewhere in the City and no added cost to private parties is incurred.

Fort Worth

This information is from the City of Fort Worth Housing and Economic Development Department website. The department seeks to assist residential and commercial development through loan programs, tax incentives and other homebuyer and business assistance programs.

Chapter 380 Economic Development Program Grants
The purpose of these local grants is to reimburse private developers for the range of expenses that may contribute to a financing gap yielding projects financially infeasible. To this end, the City will also be sensitive to the taxable implications these grants may have for the developer and where possible, use transfer mechanisms (i.e., soft loans, accrual notes, etc.) which result in a favorable financial impact.

Retail Sales Tax Sharing
The purpose of this incentive, administered under Local Government Code, Chapter 380, is to specifically encourage the development or expansion of retail operations that fill an important void in the existing retail market. In order to qualify for this incentive, the applicant's project must embody a retail opportunity that conforms to the stated vision for the area, as well as fulfills an unmet demand. The City may provide a rebate of a percentage of the sales tax increment attributable to property improvements or upgraded tenant mix. The rebate can be made either to the site developer as a reimbursement for site improvement expenses or to the retail tenants of the improved center in order to assist in relocation or expansion related costs of the tenants. The percent of the City's sales tax rebate and length of time will be negotiable. This incentive is only available for a commercial retail project along one of the 31 Commercial Corridors of the Central City or in a designated Urban Village. The City sales tax to be rebated excludes the .5% sales tax for the Fort Worth Transit Authority and the .5% sales tax for the Crime Control Prevention District.

Enterprise Zone Program
Enterprise Zones offer local and state tax benefits for new and expanding businesses in economically distressed areas. Benefits include State Sales and Use Tax refunds and Franchise Tax reductions or credits. Approved projects in Enterprise Zones must commit to create or retain permanent jobs, make capital investment in the zone, fill at least 25 percent of its new jobs with individuals who are economically disadvantaged or residents within the zone, and maintain an agreed upon number of jobs for at least three years.

Neighborhood Empowerment Zones (NEZs)
Promote housing, economic development and quality services in Fort Worth Central City. The City Council approved this program to encourage development in Fort Worth's central city. Municipal property tax abatements, fee waivers and release of City liens are available to property owners who build or rehabilitate property within a NEZ. These incentives are designed to promote affordable housing, economic development and expanded services.

Eligible Areas
The NEZ Program is available for all NEZs designated by the City Council. The criteria the City Council uses to designate a NEZ are:

- The proposed NEZ must promote creation or rehabilitation of affordable housing; increase in economic development; or increase in the quality of social services, education, or public safety provided to residents in the zone.
- At least 75% of the NEZ is located in CDBG-eligible areas or the "Central City".
- Bounded by clearly defined boundaries (streets, railroads, creeks or other logical boundaries).
- No more than 6,000 people at the time of designation. If more than 6,000 people, the geographic area cannot be larger than 1.5 square miles.
- Meeting criteria for Reinvestment Zone.
- If a proposed NEZ boundary includes an urban village as defined in the 2002 Comprehensive Plan, a logical, defensible area of the urban village as determined by the City of Fort Worth must be zoned mixed-use. Eligible mixed-use zoning classifications include: "MU-1" Low Intensity Mixed-Use District, "MU-2" High Intensity Mixed-Use District, and a compatible "PD" Planned Development District as defined in the City of Fort Worth Zoning Ordinance.

Priority will be given to areas within or which include

- State or federal designated enterprise or empowerment zones;
- Mixed-use growth centers, as defined and identified by the proposed City's Comprehensive Plan;
- Existing Model Blocks or special target areas recognized by the City;
- A high priority commercial corridor; or
- U.S. Department of Housing and Urban Development (HUD)-eligible areas.

Basic Incentives
Following are basic incentives available for all NEZs

Municipal Property Tax Abatement
The following properties may qualify for municipal property tax abatements:

- Owner-occupied property
- Investor-owned single family property
- Multi-family development project
- Commercial, industrial or community facilities development project
- Mixed-use development project

Fee Waivers
The following fees are waived for qualified projects:

- All building permit related fees (including plans review and inspections)
- Plat application fee (including concept plan, preliminary plat, final plat, short form re-plat)

- Board of Adjustment application fee
- Demolition fee
- Structural moving fee
- Community Facility Agreement (CFA) application fee
- Zoning application fee
- Street and utility easement vacation application fee
- Impact fee
- Ordinance inspection fee
- Consent\ encroachment agreement application fee
- Transportation impact fee
- Urban forestry application fees
- Sign permit fees

Release of City Liens

The following City liens may be released for qualified projects:

- Weed liens
- Demolition liens
- Board-up/open structure liens
- Paving liens

Public Improvement Districts (PIDs)

A development tool that allocates costs according to the benefits received. In time of declining city revenues, a PID can provide a means to fund supplemental services and improvements to meet community needs which could not otherwise be constructed or provided and be paid by those who most benefit from them.

Tax Abatement Program

A tax abatement is the full or partial exemption from ad valorem taxes on eligible properties for a period of up to ten years and an amount of up to 100 percent of the increase in appraised value (as reflected on the certified tax roll of the appropriate county appraisal district) resulting from improvements begun after the execution of the tax abatement agreement. Eligible properties must be located in a reinvestment zone.

Tax Increment Financing Districts (TIFs)

Tax increment financing is a tool authorized by Chapter 311 of the Texas Tax Code by which local governments can publicly finance needed structural improvements and enhanced infrastructure within a defined area called a reinvestment zone.

The Fort Worth Business Assistance Center (BAC)

A division of the Housing & Economic Development Department of the City of Fort Worth that provides exceptional information and resources for small business owners. The BAC is comprised of 12 service providers. Each offers a wealth of information for those who want to start, buy or expand a business. The BAC offers assistance with educational workshops, business counseling services, business plan development, explore financing options for a business, market research, navigation of M/WBE (minority- and women-owned businesses), HUB Zone (Historically Underutilized Businesses), and Women's Business Enterprise (WBE) programs, procurement assistance, and access to capital.

Houston

This information is from the websites of the City of Houston Finance Department and the Greater Houston Partnership.

Enterprise Zones

The purpose of the Texas Enterprise Zone Program (EZ) is to encourage job creation and capital investment in areas of economic distress by removing governmental regulatory barriers to economic growth and to provide tax incentives and economic development benefits. An EZ is any census block group in which the poverty level is 20% or higher as identified by the most recent census, which is 2000 census. Effective date of changes was September 1, 2003. The State's Office of Economic Development is in the process of producing a map that identifies the census block groups that meet the 20% poverty criteria.

Enterprise Project Incentives

A business must apply for and receive a nomination by the City for an Enterprise Project designation. The nomination is then forwarded to the State Office of Economic Development which designates Enterprise Projects. Projects are competitively scored and a total of 87 projects statewide can be designated at any given time. Scoring is based on capital investment and job creation.

The incentives are briefly described below

> *Refund of State Sales or Use Taxes*
>
> A refund of state sales or use taxes paid on machinery and equipment, building materials, labor for the rehabilitation of existing buildings and electricity and natural gas purchased for use by the business. The refund is tied to job creation and is capped at $5,000 (will reduce to $2,000 effective Sept. 1, 2005) for each permanent job created or retained during the five-year designation period. Each project is limited to a maximum refund of $1.25 million, or $250,000 for each of the five years. The jobs must be kept a minimum of three years after the refund is made. The program provides for recapture, penalty, and interest, if jobs are not maintained.
>
> *Franchise Tax Reduction*
>
> The reduction is based on the amount of capital investment made by the project in the Enterprise Zone. The project's apportioned taxable capital may be reduced by either 50% of the capital investment made, or the apportioned earned surplus income may be reduced by 5% of the capital investment made in the zone.
>
> *Smart Jobs Fund*
>
> As an Enterprise Project, a business is eligible for both state and local incentives for a five year period. Local incentives include a property tax abatement and a small business revolving loan fund.

What are the requirements?

Businesses that are located within an EZ must commit 25% of the new jobs created and/or retained to residents of the EZ. Businesses not located within the EZ must commit 35% of the new jobs created and/or retained to residents of the EZ.

Qualified Business Designation

Businesses that meet the Qualified Business definition are those that are active in the zone, with at least 25% of their new employees either residing within the zone or meeting the definition of being economically disadvantaged. Such businesses may qualify for incentives. For state incentives, the local governing body must forward a resolution to the Texas Department of Commerce recommending designation. The following is a summary of the incentives:

- One-time state sales tax refund up to $5,000 paid on machinery and equipment for retaining at least 10 jobs in the zone
- One-time franchise tax refund up to $5,000 for creating at least 10 jobs in the zone
- Priority preference for all programs administered by the state
- Local Incentives (Designation made by City Council or the Zone Board)
- 5% utility rate reduction of the lowest rate available in the zone. Tax abatements (when approved by City Council).

Historic Site Tax Exemption

Based upon the recommendation of the Planning Commission and the Houston Archaeological and Historic Commission (HAHC), only City Council can designate historic properties. The HAHC must approve a Certificate of Appropriateness for any work on the exterior of a historic site or structure. After the site is designated "historic" by City Council, each owner desiring the tax exemption must make sworn application to the City's Director of Finance Department.

Exemption from City Ad Valorem Taxes

Once the historic site is designated, the City Council may, by ordinance, grant tax relief in the form of an exemption from ad valorem taxation. Each historic site for which a tax exemption is sought must meet the applicable qualifications set out in the aforementioned Historic Site Tax Exemption ordinance.

Exemption shall be computed on the following basis

- If the restoration or preservation (R&P) expenditures are at least 50% but less than 100% of the Base Value, then the exemption on the assessed value of the structure shall be equal to the amount of qualifying R&P expenditures.
- If the R&P expenditures are 100% or more of the Base Value of the improvements, then the exemption shall be 100% of the assessed taxable value of the historic structure but not the land.

The duration of the Exemption shall be for 15 years if the project receives no financial incentive from the City funded municipal hotel occupancy taxes; 10 years otherwise. The Exemption amount shall not exceed the amount of the initial Exemption during the term of the Exemption.

Industrial Districts

The following is a brief summary describing the general terms, descriptions and basis for the typical Industrial District contract, which are standardized and all have a 15-year duration, expiring on May 21, 2012. There are a number of substantial industrial businesses located in close proximity to the City of Houston in its extra-territorial jurisdiction (ETJ) along the Houston Ship Channel. There has been a debate whether annexation would be cost effective to the City in terms of cost of services to be provided verses revenues realized from sales tax, property tax, franchise fees, and other related fees. Currently, as a compromise, the City guarantees a continuation of ETJ status for a prescribed period (15 years) and the business pays an ad valorem-based fee on a reduced rate of what it would pay if subject to a graduated phase-in of value. This reduced, phased-in value basis is currently computed by applying the City's tax rate per $100 value on a contract percentage valuation of property derived from current HCAD values. The percentages are computed as follows:

Asset Category	HCAD Value	Contract Value
Land	100%	100%
Base Year Improvements	100%	73.4%
Construction in Progress	100%	Excluded
New Construction during:		
-- 1st through 3rd Years	100%	40%
-- 4th and 5th Years	100%	45%
-- 6th and 7th Years	100%	50%
-- 8 Years and Over	100%	73.4%
Inventory	100%	73.4%

The contract value reduction for new construction for years 1 through 7 promotes new economic development within the Industrial District boundaries. HCAD provides real and personal property appraised values annually to the City of Houston so that the City may calculate contract values and fees so that billing statements may be sent to the contract holders. Invoices are mailed on or about May 1 of each year. The payment date is June 1 and the delinquent date is July 1 of each year. No payment will be due the final year, 2012. After the end date in 2012, it will be the option of the City and each industry to renew the agreement or to enter into a different agreement.

The appraised values are based on January 1 of the year prior to the payment year, i.e., for the payment due June 1, 2007, the appraised value date is January 1, 2006. These values are provided to the City by January 31 of the payment year. The basic right of the City under these agreements is to receive payments from the contracting companies. Under these agreements, the City agrees not to annex the subject properties for general purposes before a date certain, May 31, 2012. In consideration for such promise on the part of the City, the contracting industry agrees to make a payment each year between now and 2012. The amount of such annual payment is set out in the agreement. The contracting industry would pay an amount equal to 100% of the taxes that would be owed on the land, if the land were located within the City for general purposes. Additionally, the contracting industry agrees to pay an amount equal to 73.4% of the taxes that would be owing to the City on any buildings and tangible personal property located on the land. The 73.4% figure is not set out in any statute; it was a negotiated figure that appears in all existing industrial district agreements. The last round of industrial district agreements was executed in 1997 and 1998. The end date on those agreements is 2012, the same end date for the new agreements.

The contracting industry agrees to conduct its industrial activity in strict compliance with all applicable State and Federal air and water pollution control standards. However, the contracting industry has no obligation to obtain any permits of any kind from the City. The City does have the power to cancel these industrial district agreements in the event of default by the contracting industry. First, however, the City must give written notice to the contracting industry that it is in default and that the industry must cure the defect within 60 days. If the defect is not cured within that 60-day period, the City has the right to declare the agreement terminated. Currently, the City has 115 contracts representing 220 real property accounts with an approximate total contract taxable value of $2.5 billion.

Tax Increment Reinvestment Zones
Tax Increment Reinvestment Zones (TIRZs) are special zones created by City Council to attract new investment to an area. TIRZs help finance the cost of redevelopment and encourage development in an area that would otherwise not attract sufficient market development in a timely manner. Taxes attributable to new improvements (tax increments) are set-aside in a fund to finance public improvements within the boundaries of the zone.

Freeport Tax Exemption
Freeport eligible inventory includes goods, wares, merchandise, ores, and certain aircraft and aircraft parts. Taxing jurisdictions in the state of Texas may choose to exempt eligible inventory from the ad valorem property tax. The City of Houston, Montgomery County and several school districts in the region offer this exemption.

Property Tax Abatements
A property tax abatement can reduce the total tax liability of a company for up to 10 years. To be eligible for tax abatement, the City of Houston and Harris County require that the company invest a minimum of $1 million in abatable real property and create at least 25 new jobs.

City of Houston Brownfield Redevelopment Program
Facilitates the identification, assessment, cleanup and re-use of environmentally contaminated properties within the City of Houston. The program focuses on projects that result in urban revitalization by restoring environmentally contaminated land and generating new employment opportunities to benefit the local community. Currently, the program has 30 sites enrolled, 14 projects have been completed and 16 sites are in various stages of development.

Foreign Trade Zone
Allows companies dealing in foreign trade to delay payment of U.S. Custom's import duties until their goods and merchandise actually enter U.S. commerce. Foreign trade zones (FTZs) are sites in or near a U.S. Customs port of entry where import and export merchandise is generally considered to be in international trade. Goods can be brought into a zone without formal Customs entry or without incurring Customs duties or excise taxes unless and until they are imported into the United States.

Houston Angel Network
There are many organizations and firms active in early-stage financing, including the Houston Angel Network.

- The Houston Angel Network is a non-profit organization that provides its members a forum in which to efficiently evaluate promising early-stage investment opportunities.
- Its membership consists of active and SEC-accredited angel investors who share the goal of making informed, collaborative investments in promising early stage Texas-based companies.
- HAN was founded in late 2001 and is the largest and most active angel network in Texas: Since inception, the members have invested more than $27 million in 54 deals.

380 Agreements
Offer them, but no public information is provided.

Laredo

Information from the Laredo Development Foundation (the City's site points to the LDF's site). Incorporated in November 1966, the LDF is a private, non-profit corporation dedicated to the economic and industrial development of the Laredo economy. The prime responsibility of the LDF is industrial attraction, workforce development, assistance to small business start-ups, as well as expansion and retention of existing business and industry.

City of Laredo/Webb County Tax Abatement

Chapter 312 of the Texas Tax Code allows, but does not obligate or require, the City or County to grant a tax abatement on the value added to a particular property on account of a specific development project that meets the eligibility requirements set forth in this policy. The basic formula for calculating the abatement is as follows:

New Permanent Full-time Jobs	Added Value in Real Personal Property	Percent of Abatement	Term
50-100	$1.0-2.5 Million	25%	5 years
101-150	$2.5-5.0 Million	50%	5 years
151-200	$5.0-10.0 Million	75%	5 years
200+	Over $10.0 Million	100%	5 years

Chapter 380 Agreement Tax Reimbursement

Terms are negotiated based on the merits of the project. Qualifying criteria include the size of the capital investment, number of employees hired, average wage of all payroll located in Laredo, the benefit package offered, and the demonstrated ability of the applicant. The awards are generally in 25% increments up to 100% for a period up to 10 years.

Project Development Grant

These are cash awards paid to the company at a specific time after the negotiated company performance criteria has been achieved. The most common criteria used, for purposes of this agreement, is the number of employees hired above a negotiated hourly wage equivalent. The most common hourly wage equivalent hurdle rate used is the Laredo MSA Average Wage (annual). This one time grant can be as high as $2,500 per qualified candidate on payroll.

Infrastructure Improvements

This incentive is handled on a case-by-case basis with either the city or the provider of the infrastructure required by the project and can include the company's requirements for roads, utilities, rail access, and other similar project components. Where necessary, Laredo will help coordinate activities with the local rail district to support appropriate funding solutions.

Expedited Permitting

A process that includes using Laredo's one-stop-shop process, organization of a cross functional project team to provide seamless project support, provide parallel path activity for certain components and, for approved projects, waiving permit costs up to 100%.

Employee Training Programs

The Laredo Development Foundation is an advocate for sources of training program funds and assistance that may be offered through sources such as Laredo Community College (Skills Development Fund Grant), Texas Workforce Commission (Workforce Solutions), and other state and federal programs. **T**here is also the opportunity for potential funding through the North American Advanced Manufacturing Research and Education Initiative.

Concierge Service

Key executives and staff moving to the city receive complimentary concierge service to help in any facet of their transition process. These services include but are not limited to: neighborhood/housing search, expedited mortgage process, introduction and insight into various academic alternatives, arrange shopping and quality of life tours

Assistance through Workforce Solutions

Work Opportunity Tax Credits

This is a federally funded program that is used to reduce the federal tax liability for the private-for-profit employers who hire new employees from "targeted" groups. This credit could be as much as $2,400 per employee.

Texas Back To Work

South Texas' participating employers may receive up to $2,000 for retaining eligible new hires for at least 120 days. Texas Back to Work promotes increased productivity and business growth, while defraying the costs associated with increasing your workforce. By hiring from this highly qualified pool of workers, who have lost their jobs through no fault of their own, firms have the ability to select pre-screened qualified individuals, reducing costs for recruitment and hiring, and training employees to meet an individual business' needs.

Freeport Exemption

Freeport Exemption applies only to raw materials and finished goods inventory. Eligible inventory must be transported to destinations outside of Texas no later than 175 days after the date acquired or imported to Texas. Freeport eligible inventory includes property detained in Texas for assembling, storing, manufacturing, processing, or fabricating purpose. Laredo is a Double Freeport community with the City of Laredo and the County of Webb granting this exemption.

Foreign Trade Zones

Laredo has four active Foreign Trade Zones (FTZ) sites, one at Laredo International Airport and three at local industrial parks, covering a total of 3,500 acres. FTZ's offer substantial savings on delayed, reduced or eliminated U.S. Customs duties. Foreign and domestic merchandise may be moved into these zones for storage, assembly, exhibition, manufacturing or other processing, for indefinite periods of time, without payment of Customs duties until it leaves the zone and enters the U.S. for domestic use. When the duties are paid, the importer may pay on either the finished product or the original foreign material, whichever is less. Also, material in FTZ's is not subject to Texas Inventory Taxes.

Financing

The Laredo Development Foundation operates a Loan Assistance Center which is affiliated with SBA's Small Business Development Center program and a 504 Certified Development Corporation. In the last 5 years, the LDF has processed over 200 SBA Guaranteed loans at low interest rates.

McAllen

This information is from the McAllen Economic Development Corporation (MEDC) website. The MEDC is a not-for-profit corporation under contract with the City of McAllen to create jobs by attracting new industry and helping existing companies expand within the city and in Reynosa, MX.

City Economic Development Grant*

A Company meeting the criteria on wage levels may be eligible for the Economic Development Grant. The City of McAllen is one of the largest Texas cities that uses a half-cent sales tax funds (from the 4b sales tax program) to finance these grants which are awarded to companies for assistance during the critical startup period. The amount awarded to a company is based directly on the number of new jobs being created in McAllen, Texas, the wages and benefits that will be paid to employees and the capital investment of the project. In order to qualify for this grant, the company must pay approximately $10.00/hour per full time company employee with benefits. The payout of these grants is structured according to Company's needs and projections over the first five years in operation, and is typically $1,000 per job. The company would need to submit a letter of intent prior to locating to McAllen. McAllen EDC would act as the point of contact on behalf of the company with the City of McAllen.

City Property Tax Reimbursement*

The City of McAllen offers qualifying companies a property tax reimbursement. If the company meets employment numbers each year, then the company is awarded tax reimbursement. If employee numbers are not met, then the tax reimbursement is prorated. Tax reimbursement is generally 100% year 1; 80% year 2; 60% year 3; 40% year 4; 20% year 5; 0% year 6. The payout of both the City Economic Development Grant and the City Property Tax Reimbursement Grant is structured according to your employee projections over the first five years of operation.

Freeport Exemption-Texas Tax Code

Under Texas law, the Freeport Exemption applies to raw materials and finished goods inventory other than oil, natural gas and other petroleum or derivatives. Eligible inventory must be transported to destinations outside of Texas no later than 175 days after the date acquired or imported to Texas. Freeport eligible inventory includes property detained in Texas for assembling, storing, manufacturing, processing, or fabricating purpose. McAllen is considered a Quadruple Freeport. The following entities grant Freeport exemption: McAllen ISD, Hidalgo ISD, Sharyland ISD, City of McAllen, South Texas College, and the local Drainage District.

Goods-In Transit Incentive

House Bill 621 of the 80th Texas Legislature amends the Tax Code and the Government Code to add an exemption from ad valorem taxation for goods-in-transit. To qualify for the exemption, personal property used for assembling, storing, manufacturing, processing, or fabricating purposes would have to be acquired in Texas or imported into Texas and stored at a Texas location in which the owner of the goods does not have a direct or indirect ownership interest. The goods-in-transit would have to be transported to another location in Texas or out of state no later than 175 days after the property was acquired in or imported into the state. Oil and gas and their immediate derivatives, aircraft, and dealer's special inventories would not qualify for the exemption.

County Property Tax Abatement

The County of Hidalgo offers property tax abatement up to 80% of the property value. MEDC assists companies in applying for this benefit. This incentive would be based on the number of employees and/or the amount of investment.

Employee Training Incentives

The South Texas College Partnership for Workforce Training and Continuing Education determines the various sources of available training program funds as well as provide your Company with assistance in fund application and administration. Additionally, South Texas College serves as the lead agency in the Rio South Texas Manufacturing College Alliance and the North American Advanced Manufacturing Research Education Initiative. It is charged with leading the implementation of a regional skills credentialing customized training system in the region focused on advanced manufacturing skills. A few of the programs included in this effort are: tool and die, industrial maintenance, precision manufacturing, plastics, leadership and supervisory training. The possible sources of funds for training programs include the City of McAllen Supplemental Job Training Incentive Program, Texas Skills Development Fund, Texas Self Sufficiency Funds. These funding sources help companies pay for company specific training requirements.

City of McAllen Supplemental Job Training Incentives Program:

The City of McAllen allocated approximately $750,000.00 per year to provide gap funding for training requirements that may not be covered by other training assistance programs or that requires a rapid response in a timeframe that normal funding programs can achieve.

Work Opportunity Tax Credits

The Work Opportunity Tax Credit (WOTC) is a Federal tax credit incentive that the Congress provides to private-sector businesses for hiring individuals from twelve target groups (long-term TANF recipients, other TANF recipients, Food Stamp recipients, Designated Community Residents, Summer Youth Employees, Qualified Veterans, Vocational Rehabilitation Referrals, Qualified Ex-Felons, SSI Recipients, Hurricane Katrina Employees, Unemployed Veterans, Disconnected youth) who have consistently faced significant barriers to employment. The main objective of this program is to enable the targeted employees to gradually move from economic dependency into self-sufficiency as they earn a steady income and become contributing taxpayers, while the participating employers are compensated by being able to reduce their federal income tax liability. The tax credit for employing members of these target groups can range from $1,200 for summer youth hires up to $9,000.00 for each long term TANF recipient.

On-The-Job Training

On-the-Job Training (OJT) and Customized Training provide unique opportunities for participants who already possess some job-related skills and the knowledge to “learn as they earn”. By participating in training as an employee, the participant not only acquires new skills and knowledge, but also receives the same wages and benefits as current employees in same or similar positions. The employer benefits by being reimbursed for part of the participant’s wages during the training period, while having the services of a full-time employee. Up to 50% reimbursement of employee’s wages is possible for the workforce eligible under WIA for up to six months.

Texas Enterprise Zone Program:

The Texas Enterprise Zone Program is an economic development tool for local communities to partner with the State of Texas to promote job creation and capital investment in economically distressed areas of the state. Local communities must nominate a company as an Enterprise Project to be eligible to participate in the Enterprise Zone Program. The state accepts applications quarterly with deadlines on the first working day of March, June, September, and December. Designated projects are eligible to apply for state sales and use tax refunds on qualified expenditures. The level and amount of refund is related to the capital investment and jobs created at the qualified business site. Projects may be physically located in or outside of an Enterprise Zone.

San Antonio

Information from the City of San Antonio's website.

Tax Abatement

The City offers a Tax Abatement of up to 100% on real and/or personal property taxes on improvement values for a maximum term of up to 10 years. Applicants will be required to complete an application and submit an application fee. Individual Tax Abatement applications are subject to final negotiation and approval by City Council.

Program Eligibility Criteria

Project must meet certain minimum capital investment, wages (not including benefits), and/or job creation requirements in Exhibit A:

- A project may be eligible for a tax abatement if the company is a Targeted Industry: Agribusiness, Aviation/Aerospace, Biotechnology, Creative Services, Environmental Technology (includes green technology), Finance, Information Technology and Cyber Security, Logistics and Distribution, Manufacturing (any industry), Oil and Gas Industry (excluding storage and distribution facilities), Telecommunications, Corporate and Regional Headquarters, or commercial, mixed-use and multi-family rental only housing projects locating in the Inner City Reinvestment/Infill Policy Target Area.
- Living Wage Requirement: This wage is based on the poverty level for a family of four, as determined annually (January) by the U.S. Department of Health and Human Services (HHS).
- Median Hourly Wage for Manufacturing: This wage reflects the annual median hourly wage for all manufacturers in the San Antonio Metropolitan Statistical Area and is updated in May of each year.
- Median Hourly Wage for All Industries (Companies): This wage reflects the annual median hourly wage for all industries in the San Antonio Metropolitan Statistical Area and is updated in May of each year.
- At least 25% of the new employees must be residents of Bexar County.
- Company must provide access to health care benefits for full-time employees and dependents.
- Individual tax abatement applications are subject to City Council approval and should be submitted at least 30 days prior to the start of construction.
- Term of abatement is based on project location.
- Projects over the Edwards Aquifer Recharge/Contributing Zones are not eligible for an abatement

Summary of Capital Investment and Job Creation Requirements

State statute allows the City to offer tax abatements for up to 10 years on up to 100% of real and personal property improvements. The City intends to aggressively negotiate and consider offering up to this maximum allowable tax abatement on projects that meet or exceed a total capital investment of $30 million and/or create at least 500 new full-time jobs, regardless of where those projects choose to locate in the City, except for projects locating over the Edwards Aquifer Recharge/Contributing Zones. At the same time, the City is particularly focused on attracting investment and jobs to the Inner City and is therefore prepared to offer even more significant tax and other development incentives to projects in this targeted area.

Economic Development Incentive Fund

San Antonio has created a fund – capitalized by general revenue funding and replenished annually as needed – that can be used to provide economic development grants and loans to companies seeking to create jobs and investment in San Antonio. This program is considered in combination with, or as an alternative to other incentive programs. The primary purpose of the Economic Development Incentive Fund (EDIF) is to make funds available for offering financial incentives in the form of economic development grants and/or loans in accordance with Chapter 380 of the Local Government Code to companies seeking to create, or retain jobs and invest in San Antonio.

Program Eligibility Criteria

The following project categories are eligible for consideration for EDIF assistance:

- Attract, retain and/or expand companies in targeted industries, including corporate and regional headquarters, particularly in the Inner-City Reinvestment/Infill Policy (ICRIP) area designated by City Council;
- Promote development projects at and around active and former military bases, including Fort Sam Houston, Lackland Air Force Base, Brooks City-Base and Port San Antonio;
- Promote development projects at and around higher educational institutions and other nongovernmental institutions, such as the Texas Research and Technology Foundation, which help create jobs and support growth in the targeted industries;
- Promote commercial and mixed-use development projects in the ICRIP;
- Attract a new corporate, or regional headquarters to the ICRIP area, or the retention and/or expansion of an existing corporate, or regional headquarters into the ICRIP area;
- Promote multi-family, market rate housing in the Central Business District; and stimulate development and investment in distressed areas, such as in the ICRIP area, State Enterprise Zone census tract areas and the City's designated Reinvestment Plan Areas.

Uses of EDIF Funds

The EDIF may be used to provide economic development loans and grants pursuant to Chapter 380, Texas Local Government Code to help fund the following type of projects and project-related expenditures:

- Public improvements associated with the project;
- Training for new, or retained jobs;
- Real and personal property acquisition;
- Site development;
- Company relocation expenses for moving operations to San Antonio;
- Staff due diligence;
- Facility construction and/or real property improvements;
- Studies, or planning that promote growth in the targeted industries and/or geographic areas;
- Marketing expenses related to mixed-use and market-rate housing projects;
- Grants, or loans to the San Antonio Economic Development Corporation;
- Utility infrastructure costs not funded by CPS Energy Community Infrastructure and Economic Development funds;
- Grants, or loans to community partners, such as the WDC and SAGE; and
- Restoration, adaptive reuse, or historic preservation of existing buildings and structures.

Program's Benefits

The EDIF will be used in combination with other incentive tools and programs to fund project related expenditures.

Foreign Trade Zone

San Antonio is home to Foreign Trade Zone (FTZ) No. 80, with the current designation of ten FTZ sites. Businesses can locate at existing sites, or apply for designation as a new General Purpose or Subzone. A General Purpose is established for multiple users and multiple functions; however, a Subzone is a limited purpose site that cannot be accommodated within an existing site.

Freeport Exemption

The City of San Antonio, Bexar County and two local City independent school districts (Judson ISD and San Antonio ISD) allow personal property tax exemptions for companies that deal with goods-in-transit or inventories used in the manufacturing process.

Program Eligibility Criteria

- Any company locating within Bexar County, which has goods in transit, is eligible for this incentive. The amount of the exemption increases or decreases depending on location.
- The goods must be in Texas only for a limited purpose, such as for storage or factory processing.
- Taxable inventories must be moved outside of the State of Texas within 175 days.

Program's Benefits:

- Exemption of up to 100% of personal property taxes on goods-in-transit, or inventories used in a manufacturing process and the inventory items are moved out of state within 175 days.

Development Financing Programs

The City of San Antonio has created non-profit corporations for the purpose of financing certain types of development through bonds or loans. Bond financing may permit borrowers to finance an entire project, including equipment. The feasibility of a prospective bond financing will be largely determined by the financial strength of the borrower and the credit worthiness of a transaction.

The Industrial Development Authority (IDA) can issue taxable and tax-exempt bonds up to $10M to acquire land and construct industrial or manufacturing facilities with development costs under $20M. Industrial Development Revenue Bonds may be subject to an annual state allocation. The City of San Antonio Health Facilities Corporation (HFDC) can issue tax-exempt bonds for non-profit organizations towards the development of healthcare facilities. The City of San Antonio Education Facilities Corporation (EFC) may issue tax-exempt bonds for capital improvements at non-profit institutions of higher education, as well as non-public or state-authorized charter schools providing primary and/or secondary education services. Taxable bonds can also be issued without cap and few restrictions.

In conjunction with legal counsel specializing in such transactions, staff will work with a prospective borrower and their underwriters, advisors, and legal counsel to structure a feasible bond issue.

Borrowers must pay two fees to these conduit bond corporations: (1) an application fee of $2,500 to Economic Development Department (2) an issuance fee of $20,000 at closing to the Corporation.

Program Criteria

- Submit Application and $2,500 application fee
- Capacity is evaluated
- Company must have either a credit rating, or letter of credit from a U.S. Bank
- Bank serves as Trustee
- Tax-exempt benefits are through the City's Board of Directors
- Term runs from 30 to 40 years (or life of equipment, if tied to equipment)
- Other fees involved are $500 for bond review, $600 volume cap allocation, etc.
- City assists company in preparing paperwork and discusses fees involved

Fee Waivers: Inner-city Reinvestment/Infill Policy (ICRIP) & S.A. Water System (SAWS)

It is the intent of the City and the San Antonio Water System (SAWS) to support policies that promote growth and development in targeted areas of the City, as described in the City’s Inner-City Reinvestment/Infill Policy (ICRIP) Area. The ICRIP Area specifically identifies targeted areas that are currently served by public infrastructure and transit, but underserved by residential and commercial real estate markets. It is the intent of the ICRIP to utilize City and SAWS incentives within the ICRIP Area in order to stimulate investment in creating walkable urban communities.

Currently, SAWS commits $2 million annually in impact fee waivers to be used in the ICRIP Area. It is the City’s intent to distribute this available incentive fund in a manner that provides greater focus to the areas within the ICRIP Area, while still allowing the distribution of a portion of this incentive amount in areas that are not within the ICRIP Area. Therefore, the goal is to allocate at least 75% of the SAWS $2 million annual incentive to projects within the ICRIP Area. Projects outside the ICRIP Area must meet certain job creation and/or capital investment thresholds, except for affordable housing and community service projects.

The award and distribution of City and SAWS fee waiver incentives will follow the goals outlined below.

- Increase new development (housing and commercial) on vacant infill lots.
- Increase redevelopment of underused buildings and sites.
- Increase rehabilitation, upgrade, and adaptive reuse of existing buildings.
- Increase business recruitment and expansion in the City’s targeted industries.
- Within the ICRIP, the amount of a SAWS Impact Fee waiver can range from $100K on an investment of up to $10M, up to a maximum fee waiver of $500K for a project investment of at least $40M.

Program Eligibility Criteria

The following are eligible for the specified City and SAWS Fee waivers:

- Residential/Mixed-Use Development
- Commercial/Industrial Development
- Retail projects will be evaluated on a case-by-case basis, to ensure all retail projects seeking City and SAWS fee waivers are aligned with the policy’s goals.

Other Requirements

- Projects must be initiated within 6 months of receipt of an approved application and verification certificate from the City’s Center City Development Office (CCDO).
- Recipient must claim any waivers and pay any fees due to SAWS as required by the verification certificate, unless extended by both the City and SAWS.

Note: This policy is not retroactive to any projects that have already incurred a fee, have any permits in processing, or permits have been issued.

Customized Workforce Training

Through an Agreement established with the Alamo College District, approved annually by City Council since March 2001, the Economic Development Department offers customized training assistance through Alamo Colleges, as an incentive to businesses seeking to relocate, retain, or expand their operations within San Antonio. Grant assistance will be based on investment and job creation.

Program Benefits

- Training may be customized to fit the specific needs of a company, or its employees.
- Training may be conducted at any of Alamo College's campus locations, or on-site at the employer's workplace.
- Customized training assists in the development of skilled personnel to meet the ever-changing workforce needs of businesses.
- Customized training assists in the development of personnel job skills to enrich the work experience and educational attainment of current and future employees.

Economic Development Briefing Team

The City of San Antonio, together with various public service utility companies, formed the San Antonio Site Development Briefing Team to provide an overview of the site development process. This team facilitates the process by serving as the direct, immediate line to key decision-makers that can troubleshoot and resolve problems encountered in the development and permitting process, such as issues related to local subdivision, uniform building, and the uniform fire codes. The Program is available to businesses locating within the City of San Antonio.

Program's Benefits

The team describes the development process, identifies applicable codes, regulations and clarifies code requirements. This courtesy briefing and conceptual plans review does not replace the Preliminary Plans Service process or the regular Subdivision and Construction processes. The briefings are tailored to the scope of the development and may require the participation of the following entities:

- Development Services Department
- San Antonio Water System (water)
- Public Works Department
- Police Department
- City Public Service Energy (electric/gas)
- Health Department
- Texas Commission on Environmental Quality
- Other City Departments as necessary

NON-TEXAS CITIES

Albuquerque

This information is from the City of Albuquerque's website and Albuquerque Economic Development's (AED) website. AED is a private, non-profit organization whose mission is to recruit business and industry and help local companies grow in order to generate quality job opportunities in the Albuquerque metro area. AED provides confidential assistance to businesses considering the area for expansion and new investment.

Job Training Incentive Program (JTIP)

Highly flexible state program to provide on-the-job training for qualified employees of qualified employers. Customized training may be provided by post-secondary educational institutions, company trainers, or outside trainers.

The state will reimburse for:

- Up to 40 percent of trainees' wages up to 1,040 hours for companies located in urban areas
- Up to 65 percent of trainees' wages for up to 1,040 hours for companies located in rural areas;
- Classroom training costs provided by New Mexico post-secondary educational institutions, ($35 per hour for instructors' time capped at $1,000 per employee).

Conditions

- Must be a new or expanding company in New Mexico that manufactures/produces a product or a non-retail company that generates more than 50 percent of its service revenue from outside the state.
- Contract customer service centers must meet or exceed at least 90 percent of the median county wage to qualify.
- Maximum wage reimbursement is tied to hours required to learn the job and the hourly wage.
- "Hands-on" or production jobs qualify; technical jobs such as first-line supervisors and engineering generally qualify; support, administrative and sales positions are limited to 10 percent of total number of positions that qualify for funding, e-training does not qualify for assistance.
- Companies can apply for subsequent assistance if they have maintained hiring levels that exceed the peak employment as established by the initial application.
- In urban areas, companies hiring more than 20 people must offer health insurance and subsidize at least 50 percent of the premium for employees who elect coverage.
- Temporary to permanent employees qualify provided trainees becomes full-time employees of the company prior to the end of the approved training period; and trainees working through temporary agency receive comparable medical, dental and vision benefits as full-time employees of the company
- Reimbursement is subject to availability of funds and approval by the Job Training Incentives Board.

Industrial Revenue Bonds (IRB)

Significant real and personal property tax and compensating tax exemptions can occur through the use of an Industrial Revenue Bond (IRB). An IRB is a loan from the bond purchaser to a company where the loan proceeds and repayment flows through a governmental issuer. The rationale for taking this action is that the bond purchaser receives significant federal tax advantages while the company leases the property from the government entity issuing the bond so that the company does not have to pay property taxes during the life of the bond (typically 20 years). The company must agree to lease the facility from the issuer for a period of time, then purchase the facility from the issuer for a nominal amount at the end of the lease.

High Wage Jobs Tax Credit

Provides businesses with a tax credit equal to 10 percent of the combined value of salaries and benefits for each net new job paying a net taxable wage of at least $40,000 per year in the Albuquerque metropolitan area and other communities larger than 40,000 in population. Companies located in communities with a population less than 40,000 are eligible for the same tax credit for each net new job paying a net taxable wage of at least $28,000.

Qualified employers can take the credit for four years. The refundable credit can be applied against the modified combined tax liability of the taxpayer, including the state portion of the gross receipts tax, compensating tax and withholding tax. Excludes the local portion of the gross receipts tax. Employees must be hired prior to July 1, 2015.

Conditions

- Net taxable wages, without company paid benefits, must equal at least $40,000 in an urban community or $28,000 in a rural area to qualify as a high wage job.
- Net taxable wages include: hourly wage, bonus, salary, vacation, sick/holiday time.
- Company must generate more than 50% of its sales outside of New Mexico or must be eligible for the Job Training Incentive Program.
- Employer must be growing in employment greater than the year before.
- Eligible employees cannot be relatives of the qualified employer or own more than 50% of the company.
- Jobs must be occupied by an eligible employee for 48 weeks.

Manufacturing Investment Tax Credit

New Mexico tax law provides for a credit equal to 5.125 percent of the value of qualified equipment and other property used directly and exclusively in a manufacturing operation. The credit can be applied against compensating, gross receipts tax or withholding tax due. Gross receipts tax acts very much like a sales tax; the Albuquerque rate is 7.0 percent. Compensating (or use) tax applies to purchases made out of state and totals 5.125 percent. The credit is limited to 85 percent of the sum of the taxpayer's gross receipts tax, compensating tax, and withholding tax due for the reporting period. Any remaining available credit may be claimed in subsequent operating periods. The credit may be claimed for equipment acquired under an IRB. This is a double benefit since no gross receipts or compensating tax was paid on the purchase or importation of the equipment.

Criteria

For Claims	1 New Worker Employed for Each
$0 - $30,000,000	$500,000 in qualified equipment
Over $30,000,000	$1,000,000 in qualified equipment

Alternative Energy Product Manufacturer's Tax Credit
Provides for a credit equal to 5 percent of the value of qualified equipment and other property used directly and exclusively in a manufacturing operation that makes components or systems for alternative energy products.

Alternative Energy Product: an alternative energy vehicle, fuel cell system, renewable energy system or any component of an alternative energy vehicle, fuel cell system or renewable energy system or components for integrated gasification combined cycle coal facilities and equipment related to the sequestration of carbon from integrated gasification combined cycle plants.

The credit can be applied against compensating, gross receipts tax or withholding tax due. Any remaining credit can be carried forward for up to five years.

Criteria
Employer must meet the following criteria for new jobs added:

- Company must employ one new full-time employee for each $500,000 in qualified equipment up to $30,000,000 to receive the credit
- Company must employ one new full-time employee for each $1,000,000 in qualified equipment over $30,000,000 to receive the credit

Technology Jobs Tax Credit
Qualified New Mexico facilities may take a credit equal to 4 percent (8 percent in rural areas) of expenditures related to qualified research for land, buildings, equipment, computer software and upgrades, consultants, technical books and manuals, test materials, costs associated with patents, payroll, and labor. The credit may be taken against gross receipts tax, compensating tax or state payroll tax, and may be carried forward. An additional 4 percent (8 percent total urban, 16 percent total rural) may be applied against state income tax if base payroll expenses increase by at least $75,000 per $1,000,000 of expenditures claimed. The credit may be carried forward. Credits are not available for expenditures on buildings owned by a local government entity in conjunction with an Industrial Revenue Bond or already owned by the taxpayer or an affiliate before February 2000.

New Mexico Refundable Film Production Tax Credit
The state offers a 25 percent production refundable tax credit on all direct production and post-production expenditures, including New Mexico crew, that are subject to taxation by the State of New Mexico. Eligible productions include feature films, independent films, television, national and regional commercials, video games, animation, webisodes, documentaries, and post-production (including "stand-alone" post production). There is no minimum expense requirement and no minimum shoot day requirement. There is a $50M rolling cap.

State Film Investment Loan Program
New Mexico offers a loan with participation in lieu of interest for up to $15 million per project (which can represent 100 percent of the budget) for qualifying feature film or television productions. Terms are negotiated.

Criteria

- The budget must be least $1 million and a guarantor for the principal loan and distribution agreement must be in place.
- 85 percent of the film must be shot in New Mexico, with 60 percent of the below-the-line payroll allocated to New Mexican residents.

Taxes

The State of New Mexico and the Albuquerque metro area maintain that they have a favorable tax environment and aggressive incentives to promote the relocation and expansion of business.

Franchise Tax

$50 annually - Each corporation engaged in business in New Mexico and submitting a corporate income tax return must pay a franchise tax.

Corporate Income Tax Brackets

If Net Income Is:	Tax Shall Be:
$500,000 or less	4.8% of net income
$500,000 to $1,000,000	$24,000 + 6.4% in excess of $500,000
Over $1,000,000	$56,000 + 7.6% in excess of $1,000,000

Note: Apportionment is a three-factor formula. However, manufacturers can calculate using a four-factor formula (double-weighted sales).

Corporate income taxes “piggyback” on federal taxable income using the three factor formula: property, payroll and sales in New Mexico calculated as a percentage of the corporation’s property, payroll and sales. A corporation may select one of three methods for reporting their state corporate income tax: separate corporate entity, combination of domestic unitary corporations or federal consolidated group.

Double Weighting the Sales Option: companies can elect to double weight the sales, in which a corporation takes the New Mexico portion of plant, payroll, sales and sales (counting the sales twice) and uses a divisor of four. Double weighting the sales benefits manufacturers who have a significant investment in plant and payroll in New Mexico but sell most of their product outside the state.

Gross Receipts Tax / Compensating Tax (Sales & Use Tax)

- New Mexico Compensating Tax: 5.125%
- Albuquerque Metro Area Gross Receipts Tax range: 6.0625% - 7.8125%
- City of Albuquerque Gross Receipts Tax rate: 7.0%

Instead of a sales tax, New Mexico imposes a Gross Receipts Tax, which is a tax imposed on persons engaged in business in the state. In almost every case the business passes along the tax to the consumer, so the tax resembles a sales tax. Sales and leases of goods and other tangible property are taxable. Sales and performances of services are also taxable in New Mexico. The compensating tax (use tax) applies to purchases made outside New Mexico.

Unemployment Compensation

Employers must make quarterly unemployment compensation contributions. For newly located firms, the initial contribution is 2.0 percent of the employee’s Taxable Wage Base for the first four years. After the four-year period, each employer is given an experience rating, which can cause a rate to increase or decrease. The Taxable Wage Base for the year 2011 is $21,900.

Workers Compensation
In New Mexico Workers' Compensation is privatized; thus, employers can solicit Workers' Compensation insurance from any company authorized to provide insurance in the state. According to a 2009 study conducted by Actuarial & Technical Solutions, New Mexico manufacturers' average workers compensation costs were 7.3 percent lower than the national average. New Mexico ranked 21st lowest in costs among 45 states evaluated (five of the 50 states are self-insured and not rated). Employers must make quarterly payments to the Workers' Compensation Administration totaling $4.30; $2.30 must be paid by the employer and $2.00 withheld from the employee's wages.

Property Tax
Unless otherwise expressly exempt, all tangible personal and real property located within New Mexico is subject to a tax on the assessed value of property. Property is assessed by each county at the rate of 1/3 percent of value.

Property Tax Formula

- Full Value of Property x 1/3 percent = Assessed Value
- Assessed Value x Mill Levy Rate / 1,000 = Taxes Due

The mill levy rate is based on the location of the property. The current mill levy rates for non-residential property are City of Albuquerque: 46.632, Bernalillo County: 35.112, Rio Rancho: 32.840, Los Lunas: 40.840, Belen: 29.573

Inventory Tax
There is no inventory tax in New Mexico.

South Valley Economic Development Center
A collaborative effort between Bernalillo County and the Rio Grande Community Development Corporation, dedicated to helping new and existing small businesses in the South Valley and beyond. The SVEDC provides a commercial kitchen, business incubator and economic development.

Small Business Institute at the University of New Mexico
Provides free management consulting to Albuquerque area businesses by graduate and undergraduate students enrolled in business management courses at the Anderson Schools of Management. The program gives students some experience working with small businesses and provides management assistance, expertise and guidance to small businesses. Since 1978 the institute has served more than 600 businesses. Clients include start-ups, entrepreneurs, expanding businesses, nonprofits, and family businesses in service, technology, retail, and wholesale sectors.

Albuquerque Small Business Development Centers
A source of free, confidential information to small business people and aspiring business owners. They're two of 21 around the state sponsored by the state of New Mexico and the federal SBA. Albuquerque has two SBDCs that offer individual counseling in business start-up or acquisition, business liquidation or sale, government procurement, marketing and sales, sources of capital, research and development and international trade. The centers offer training in business planning, market research,

basic bookkeeping, cash-flow analysis and financial statements. The centers also have a business resource library, which includes sample business plans, textbooks, industry guides, periodicals, handouts and online resources.

eMercadoNM.com
This website allows small businesses to post information about their products and services and obtain information about becoming suppliers for state and federal government and large businesses. eMercadoNM.com was founded by the Albuquerque Hispano Chamber of Commerce and Sandia National Laboratories.

New Mexico Small Business Assistance Program (NMSBA)
Assistance is used in the form of researcher hours valued up to $20,000 for businesses located in rural NM counties and $10,000 for businesses located in Bernalillo County. To qualify for the assistance the business must be for-profit, located in New Mexico, have less than 500 employees, and be U.S. owned and operated.

Tucson

This information is from the websites of the Tucson Regional Economic Opportunities, Inc. (TREO) and the Arizona Commerce Authority (ACA) – users are directed to both via the City of Tucson's website. TREO was formed in July 2005 to serve as the lead economic development agency for the greater Tucson area and its surrounding regional partners.

Arizona Angel Investment
An investor may obtain an income tax credit of up to 35% for investing in a qualified small business. Companies are encouraged to learn more about becoming certified by ACA.

Arizona Innovation Accelerator Fund
$18.2 million loan participation program to stimulate financing to small businesses and manufacturers, in collaboration with private finance partners, to foster business expansion and job creation in Arizona.

AZ Fast Grant
Enables Arizona-based technology companies to initiate the commercialization process. The grant will pay up to $7,500 to provide one or more of select professional consulting services.

AZ STEP Grant
Grant funding from the U.S. Small Business Administration (SBA) with matching funds contributed by the Arizona Commerce Authority (ACA) offering a number of services and tools to Arizona small businesses as they go global for the first time with sales or enter new, international markets.

Commercial/Industrial Solar
Businesses installing a solar energy device at any Arizona facility may be eligible for an income tax credit of up to $50,000 per tax year.

Healthy Forest
Harvesters, initial processors and transporters of small diameter timber, may receive: Transaction Privilege Tax Exemptions, Use Tax Exemption and New Job Income Tax Credits.

Job Training
Provides reimbursable grants to employers that implement job-specific training plans for new jobs or for training plans that increase the skill level of current employees.

Military Reuse Zone
Companies located in a zone, can benefit from a Transaction Privilege Tax Exemption, Tax Credit for net new jobs and Property Tax Reduction.

Quality Jobs
Provides income tax credits of up to $9,000 for each new quality job created.

Research and Development
Refundable income tax credits are available for investments in research and development activities conducted in Arizona. The tax credit starts at 22% of the qualified R&D expenses for amounts in excess of expenditures from the previous year. Recent legislation enhances the tax credit amount up to 34% if increased R&D expenditures are made in conjunction with an Arizona public university.

Renewable Energy Tax Incentive
Companies engaged in the solar, wind, geothermal and other renewable energy industries may obtain up to a 10% refundable income tax credit and up to a 75% reduction on real and personal property taxes.

Private Activity Bond
Tax exempt bond financing, for federal purposes, offers an alternative financing mechanism for certain projects.

Qualified Energy Conservation Bond
Tax credit bonds are available as an alternative financing mechanism for certain green project.

Additional Depreciation
Accelerates depreciation schedules for prospective acquisitions of commercial personal property. Depreciation schedules for most equipment classes provide for depreciation down to 2.5% of original value, thus virtually eliminating the tax liability. Recent legislation further improved this program to help companies recover their investments even faster.

Foreign Trade Zone
Businesses, located in a zone or sub-zone are eligible for up to an 80 percent reduction in state real and personal property taxes.

Health Insurance Premium
A tax credit is available to a health care insurer for insuring individuals and small businesses who were not previously covered by health insurance.

Lease Excise

All real property tax has been waived and replaced with an excise tax that is an established rate per square foot and based upon the type of use.

Pollution Control Tax Credit
Provides a 10 percent income tax credit on the purchase price of real or personal property used to control or prevent pollution.

Renewable Energy Production Tax Credit
An income tax credit awarded to utility-scale generation systems based on the amount of electricity produced annually for a 10-year period using solar or wind energy.

Sales Tax Exemption for Machinery and Equipment
Exemptions are available for:

- Machinery or equipment used directly in manufacturing
- Machinery, equipment or transmission lines used directly in producing or transmitting electrical power, but not including distribution
- Machinery or equipment used in research and development

Solar Liquid Fuel Tax Credit
Income tax credits are available for research and development, production and delivery system costs associated with solar liquid fuel.