Final Report

Austin Chapter 380 Business Expansion Program Review

The Economics of Land Use

Prepared for:
City of Austin Economic Development Department

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1. Introduction and Summary of Findings

Project Overview

The City of Austin (the City) is authorized under Chapter 380 of the State of Texas Local Code to provide economic development incentives. The City has an overarching Chapter 380 policy that guides the use of incentives in the City. One of the components of the 380 policy is the Business Expansion and Incentive Program. This program is focused on providing economic incentives to encourage local business expansion, workforce development, or external business relocations. The program aims to use the incentives to encourage employers to hire workers from targeted populations and maximize community benefits that can be realized through business expansions.

The City of Austin's Economic Development Department (EDD) is seeking an objective third party assessment of the program and how it can be modified to improve its effectiveness. Economic & Planning Systems was retained by the EDD to complete this assessment. The assessment includes review of incentive program best practices from peer communities in the United States and review of the use of Chapter 380 programs in the State of Texas. This report contains a summary of the assessment of Austin's program and policy in comparison to its national and local peers. The report also contains an assessment of the performance of agreements executed under the City's current policy. The City of Austin also performed, and EPS participated in, outreach to economic development stakeholders and local businesses to identify gaps in the program's ability to support community goals and to identify potential changes to the program.

This report contains four primary sections following this Introduction and Summary of Findings. The first chapter is an overview of Austin's current program and policies. The second chapter evaluates Chapter 380 programs in other large Texas cities including Dallas, El Paso, Fort Worth, Houston, and San Antonio. The third chapter includes a description of similar incentive programs in National peer cities is provided including programs in Atlanta (GA), Charlotte (NC), Nashville (TN), and Phoenix (AZ). The last chapter provides the recommendations for potential modifications to the program identified through the peer city research and stakeholder outreach.

Summary of Findings

The following findings are based on the comparison of the City's program to its peers. Additional outreach is needed to better understand positive and negative aspects and to develop a full set of recommendations.

Assessment and Peer City Findings

1. ***The City of Austin's Chapter 380 Business Expansion Program is designed for too broad of a set of projects, and its eligibility requirements are too numerous and onerous, which greatly limits the number of applicants that would be able or want to apply.***

   The program design is trying to be applicable to too broad of an array of projects. At the same time the program design sets too high of a bar for compliance while trying to achieve too many desired outcomes for a single project/applicant to fulfill. The broad nature of the program is fine if the desired outcome is for the broad use of the incentive, but this does not appear to be the case based on other program criteria. The numerous desired outcomes that are reflected in the base general eligibility criteria and the scoring criteria make it difficult for a potential project to meet and for desired outcomes to be achieved.

   The policy goal states that the City use public private partnerships to achieve desired community outcomes. Given the strength of the Austin economy, this is likely the correct approach to take. Leveraging projects that are likely to happen by incentivizing the inclusion of community benefits has been a successful tactic in other communities. However, the program design appears to encumber projects with too many requirements to entice participation.

2. ***The program lacks a strategic direction and link between the desired outcomes of a project and the types of projects that may be enticed to participate.***

   The program states the desire to achieve five main objectives including middle skill job creation, increasing labor force participation for target populations, small and local business expansion, leveraging growth to create community benefits, and offsetting impacts of the City's regulatory environment. However, the program design does not seem to be tailored specifically to the outcomes. The broad applicability approach for projects in each of the three main categories (expansion, workforce/target hiring, and relocation) makes it hard to find the connection between these outcomes and the types of projects most likely to achieve them. The lack of strategic direction is also evident in the loose connection between the program and target industries/initiatives. For example, projects creating jobs in a target industry are only relevant for receiving bonus qualifier points. The outcomes should be more connected to the design of the program for specific project types.

3. ***The barriers to accessing the incentive seem to be too laborious in terms of requirements for larger firms to be interested in and too onerous in terms of eligibility criteria and process for smaller firms to be able to take advantage of.***

   The program lays out a set of "minimum requirements for business expansion program portfolio qualification" that apply to all projects. These requirements are relatively onerous (compared to other peer cities programs) and may be limiting for certain projects, specifically smaller projects or more community development-oriented projects. The general eligibility requirements within the three categories of projects are simple and straightforward. The complication comes, however, within the cost-benefit analysis and return on investment analysis, which have several potential requirements and/or scoring criteria that project is judged against. It is difficult for a prospective applicant to know, or for economic development professionals to inform applicants, if they will be eligible due to the minimum score threshold and the varied nature of scoring criteria. This ambiguity presents challenges for potential applicants that may deter them from seeking further information or starting the process.

   Some of the community benefits or bonus qualifiers listed are loosely connected to any potential project or may not be a priority outcome that is worthy of inclusion in the incentive program. Potential examples include the civic engagement benefit or the local music and arts community engagement bonus qualifier. Although these are important objectives for the City, including too many of these outcomes within the incentive program creates confusion and reduces the potential impact on priority benefits/outcomes. Many of these benefits and bonus qualifiers are loosely defined in terms of compliance and appear difficult for an applicant to prove or for the City to ensure compliance. Pairing down the desired benefits that a project can create and the potential "bonus credit" a project can get should help reduce complexity of the program and reduce the amount of time required by staff to determine eligible projects and ensure compliance.

4. ***The City's approval process for projects is in line with strategies taken by peer communities and the use of administrative approval of smaller incentive agreements is a good inclusion.***

   The City has three tiers of approval processes for projects seeking agreements. Agreements with a project budget below $5 million only require City Manager approval for the incentive agreement. Projects that are bigger in scale trigger the need for City Council approval and the notification of the public. This scaled approach is well suited for supporting smaller projects and reducing barriers/time for approval.

Future Considerations and Recommendations

EPS has identified a set of recommendations and considerations for the City based on the peer city research and the stakeholder outreach.

1. ***The Business Expansion Program needs a more direct link between the desired outcomes of the incentive program categories and the policy design.***

   Better direction is needed in terms of the desired outcomes the City wishes to achieve to build a program around the types of projects that can achieve the outcome. A set of desired outcomes for each of the project categories should be defined explicitly.

   Specific considerations for each category type are provided below.

   - **Existing Local Expansion Incentives** – The desired outcome for this category is ultimately to support existing Austin businesses. For larger, more established businesses, seeking incentives are more likely related to addressing logistical challenges to expansion (e.g., finding a site, development barriers). The use of incentives should be designed to address those challenges and seek to facilitate the creation of community benefit(s) that is related to the project. For smaller and marginalized businesses, the use of incentive is truly to make projects that are not feasible happen. The benefit is produced through ensuring the business' vitality and not through added requirements of the project. The program design should either differentiate between the two types of projects or scale up qualification or amount of incentive based on the desired outcomes that can be addressed.
   - **Targeting Hiring** – The purpose of this category is incentivizing the hiring of individuals in marginalized or vulnerable populations, and/or create career pathways for middle skills workers. The general eligibility criteria lay out a set of potential groups that are worthy of hiring incentives and provides flexibility for workers in other unique circumstances. However, this flexibility appears to put the onus on the employer to prove their worker is eligible. This incentive program should be more directly tied to specific workforce development efforts and partner agencies and work in concert with those efforts. A more direct tie to these partner efforts can help provide a framework that is more proactive in encouraging hiring than reactive where a business must come to the City seeking incentives.
   - The desired outcome of this incentive is the hiring of these individuals. However, the program design places additional cost-benefit analysis and return on investment analysis burdens on the project. This added level of requirements and review are not necessary. Hiring target populations is a challenge and should be encouraged through meeting the general eligibility criteria. The added incentive of participating with a third-party

provider (which should often be a given with direct ties to workforce development programs that the City supports) and use of housing stipends is a good approach. Similar additional incentives could be provided for providing community benefits (some of which are now more like requirements in the score system).

- **External Relocations** – This category is for the leveraging of company relocations to Austin to produce community benefits. The overall Chapter 380 program seems to be most applicable (and designed) for this type of project. The current design of the program for this category is best aligned with the likely outcomes of an agreement. However, the scoring process and required benefits are too numerous and potentially onerous to entice participation. A consolidated, prioritized set of desired community benefits that can be achieved through relocation projects should be defined to allow for a more proactive engagement with prospective businesses around creating a public-private partnership agreement. Being able to achieve the desired community benefit through the agreement should be the most important eligibility criteria needed for consideration. Scaling the size of incentive should be tied to the cost of the benefit being produced, which should reduce the need for numerous scoring criteria to determine eligibility. Lastly, the amount of incentive offered is lower than peer cities and is likely too small to entice participation in the process unless there are other benefits to the company (e.g. required local match for Federal grants).

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2. Austin's Chapter 380 Program Overview

Section 380 of Title 12 of the State of Texas Local Government Code enables municipalities to establish programs that allow for the use of loans and grants of public money to promote state or local economic development. To issue grants or loans, a city must establish a formal program directing the use of public monies that are in line with its city policies and state statute.

The City of Austin utilizes powers enabled by Chapter 380 as part of its larger economic development efforts. The City last adopted a formal "Chapter 380 Policy" in 2018 to guide the use of the tool between 2018 and 2023. This section provides an overview of the 2018 policy and specifically, the Business Expansion Program.

Austin's Incentive Policies and Programs

The City of Austin's Chapter 380 programs and other economic development programs are used to achieve the economic objectives documented in the City's Austin Strategic Direction 2023. With the vision set in this plan, the City encourages that use of public private partnerships, supported by Chapter 380 powers, to achieve community outcomes. The City's economic development programs are directed by a set of economic development guiding principles. These principles provide direction on the types of efforts that the City is willing to provide public monies and services to support, including:

- Connector to investors, path-clearer
- Create employment opportunities for all
- Unify the community through collaboration
- Train, recruit and retain local workforce and talent
- Support Austin's culture, creative sector and community identity
- Incentivize, support, provide staff to train small businesses
- Build affordable, livable and accessible development
- Impact business growth
- Control affordability
- Promote economic diversity

The use of public monies granted or loaned to private partners can be used to achieve the following community outcomes. City monies must be spent for a municipal or civic purpose where the investment is equivalent (or less than) the benefit that is generated and the City is able to track if outcome is achieved.

- Locational enhancements (place-making)
- Workforce development
- Quality jobs

- Equity and diversity
- Quality investment
- Transportation
- COA revenue (taxes and utilities)
- Equitable hiring practices

The City's Chapter 380 Policy (2018) is meant to provide the structure for creating programs that work with the private market to achieve City objectives. The policy provides the basic administrative components that new/existing programs should adhere to including project selection guidelines, program processes, and assessment policies.

The City of Austin provides several programs, services, and projects/initiatives (19 in total) aimed at a variety of economic outcomes. The Business Expansion Incentive Program is one of these 19 programs and utilizes the powers granted by Chapter 380, most directly, and is targeted broadly at the growth and expansion of businesses and the workforce.

Chapter 380 Incentive Program

Program Objectives and Goals

Austin's Chapter 380 program seeks to achieve five priorities identified within the community including providing middle skill job creation, increasing labor force participation for target populations, small and local business expansion, leveraging growth to create community benefits, and offsetting impacts of the City's regulatory environment.

Project/Business Eligibility Criteria

The City of Austin requires that projects funded have a financial gap where 'but-for' the incentive provided the project or business expansion would not occur. Beyond the but-for requirement, there are a number of eligibility requirements including compliance with City codes and environmental regulations, compliance with the City's MBE/WBE (minority-owned and women-owned business enterprises) ordinance and the MBE/WBE procurement programs, workers compensation insurance and OHSA training/prevailing and living wage requirements for construction projects, provision of anti-harassment and discrimination practices, provision of living wage to all Austin-based employees and required community benefits provided by high-wage firms, and provision of health insurance benefits to all new FTEs.

Types of Projects Funded

Austin has three categories of projects that can be incentivized – existing local expansion projects, targeting hiring projects, and external business relocation projects. Each category of project has its own general eligibility criteria and project evaluation scoring criteria for which a decision on whether a project receives an incentive and what amount it is eligible. The projects in each category are assessed on whether the minimum and general eligibility requirements are met, results of a cost-benefit analysis, results of a return on investment including community benefits analysis, and a set of bonus qualifier criteria. The result is a score of projects on a 0 to 100-point scale where projects below 50 points are not eligible for an incentive, while projects with scores above 50 are eligible for varying amounts of direct grants (tied to wages) and property tax reimbursements.

Incentives Provided

Projects in the local expansion and external relocation categories can be awarded both a direct, annual grant tied to a percent of wages provided for new jobs created with a cap of $1,800 per job, and a property tax reimbursement up to 50% of the net present value of the estimated tax liability for the project over 10 years.

Projects within the targeted hiring category are able to receive annual grants based on the number of jobs provide to residents in a targeted hiring population, with greater grants provided if a company uses an authorized third-party entity engaged in workforce development to help fill the position and/or if a company provides a housing stipend to employees to offset the cost of living, especially for employees earning less than the company's median salary.

Consideration Criteria

Each category of project has a set of general eligibility criteria that must be met. For the business expansion and external relocation categories the general requirements are tied to the number of new jobs created. The targeted hiring category general eligibility factors in definitions of targeted populations and wage level requirements in addition to the number of jobs.

The projects are evaluated using a cost-benefit analysis that considers a multitude of potential costs and benefits. These cost benefit analyses generate a score for the benefit created for the project. The analysis does not seem to have a consistent template or approach to scoring.

Beyond cost benefit analysis, the projects are evaluated based on numerous criteria/measures related to various City goals and objectives that are part of a "Return on Investment (ROI) including community benefits" analysis. The types of benefits that can generate points in evaluation include talent development/ targeted hiring efforts, utilization of DEI programs in the company, creating loosely defined neighborhood connections, use of local partnerships with local community service entities, use of sustainable business practices, and level of civic engagement at the company.

Lastly, in addition to the return-on-investment scoring opportunities, projects can also get "bonus qualifiers." Qualifiers include points for being a company in a target industry, being a small business, creating over 100 new jobs, paying higher wages than industry averages, being a co-op owned company, locating in a target geography, use of LEED construction, having a low carbon impact, use and procurement of local art, support for local music industry, and providing day care for employees.

Application Process

Applicants complete an online application to apply for Austin's Chapter 380 program. This form acts only as an introduction to the project application. If selected, staff from the Economic Development Department set up a meeting discussing the project details. Following the online application and review, a formal Chapter 380 program application is submitted.

Scoring/Review Metrics

After the final submittal, a project score is determined by specific criteria based on the project type of the application. Scores range from 0 to 100, with 50 being the qualifying cutoff. Scores above 50 are eligible for incentives, which increase with scores closer to 100. Applications can bundle multiple project types and average the project score of each for a final overall score.

Approval Process

The approval process varies by the size of the project. Projects with a budget below $5 million are approved by the City Manager. Medium-sized projects ($5 million to $20 million) are approved by a City Council vote. Projects larger than $20 million involve a City Council vote in addition to a formal staff presentation to City Council, a press release, and opportunities for public comment. For all projects, annual independent third-party audits are required to receive incentive payouts.

Incentive Program Utilization

In the last five years, Austin's Chapter 380 program has funded three agreements with approximately $140,000, as shown in **Table 1**. Two projects are under the Job Creation category, providing $2,000 per Targeted Hire annually to AllPro Hospitality staffing and L'Oca d'Oro restaurant. L'Oca d'Oro had varying incentives based on the type of job created, with $220 instead awarded for jobs that did not meet the Targeted Hire qualifications. The third agreement is a Local Expansion category project with Astute Electronics, which was awarded annual performance-based grants through meeting obligations related to hiring and capital investment in the city. The L'Oca d'Oro project is the City's only active project, indicating very limited use of the program.

Table 1 Austin Recent Chapter 380 Agreements

Company	Project Type	Year	Existing Jobs Retained	New Jobs Committed	Average Wage	Estimated Incentive	Status
Astute Electronics	**Local Expansion**	**2020**	**29**	**36**	**$50,000**	**$25,308**	Company retained in Austin, agreement inactive
L'Oca d'Oro	**Job Creation**	**2019**	**23**	**10**	**$42,000**	**$54,040**	Active
AllPro Hospitality	**Job Creation**	**2019**	**8**	**10**	**Employees paid a minimum of $15/hour**	**$60,970**	Company retained in Austin, agreement inactive

Source: City of Austin open data portal; Economic & Planning Systems

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3. Texas Peer City Best Practices

Approach

The statewide best practice research consisted of case studies of Chapter 380 programs in major cities throughout the State of Texas. This research outlines the goals, priorities, structure, and outcome of incentive programs. Case studies included Dallas, El Paso, Fort Worth, Houston, and San Antonio.

Summary of Best Practices

Chapter 380 incentive programs throughout the state are unique in their goals, structure, and suite of incentives offered. Some programs focus on investing in underserved people or areas, while others seek to bolster target industries, attract large employers, or support small businesses. All programs are authorized by the Texas state-level framework that allows cities to enter voluntary economic development contracts with private entities.

Summary Matrix/Table

A comparison matrix on the next page (**Table 3**) was created to compare all major aspects of the Chapter 380 programs. The dimensions included in the matrix are as follows: Goals, General Qualifications, Project Types and Specific Criteria, Incentives, Application Process, Scoring, and Approval. **Table 2** show the amount of loans, grants, and tax abatements provide within agreements over the last five years in each community.

Table 2 State Peer Cities Chapter 380 Agreements Summary, 2018-2023

Ch. 380 Grant Programs	Loans Disbursed (last 5y)	Grants Disbursed (last 5y)	Taxes Abated (last 5y)	Jobs Created	No. of Agreements (5y)	Total Funding
Austin	--	$140,318	$12,157,078	3,691	3	$12,297,396
Dallas	$18,100,000	$44,106,231	Not disclosed	8,763	26	$62,206,231
San Antonio	$280,000	$24,290,229	$21,619,320	8,092	17	$46,189,549
Houston	--	--	$4,450,000	361	2	$4,450,000
Fort Worth	--	$37,320,000	--	1,908	6	$37,320,000
El Paso	--	--	$12,116,500	3,344	33	$12,116,500

Source: Economic & Planning Systems

Table 3 State Peer Cities Chapter 380 Programs Summary

Ch. 380 Grant Programs	Goals	General Qualifications	Project Types & Specific Criteria	Incentives	Application Process	Scoring	Approval
Austin	Prioritize jobs that provide above industry-standard pay for middle-skill workers. Targeted hiring populations, accessibility to small/local businesses with expansion opportunities	But-for, good legal standing, environmental regulatory compliance, wage requirements, FTE benefits, antidiscrimination and harassment policies	Local Expansion	Property tax abatement and wage grants	Online form, application review. Can bundle projects and average scores	Quantitative project score (specifics in notes)	Small budget: city manager approval. Medium (<$5M benefit or $200M inv): city council vote. Large = add press release, public comment, etc
			Targeted Hiring	Grants			
			External Relocations	Property tax abatement and wage grants			
Dallas	Create jobs, invest in Dallas, and enhance equity by stimulating economy in underserved areas. Some agreements require development rather than job creation	But-for, 25 jobs created or $1M invested (S. Dallas), 10 jobs or $5M invested (CBD & N. Dallas)	Business Development	Loans, Grants, and/or property tax abatements	Job creation application: see note	Criteria evaluated qualitatively/case-by-case	Incentives below $1M or offered to M/WBE developers are approved by administrative action; otherwise, goes to City Council
			Community Dev. / Neighborhood Revitalization				
			Community Impact				
			Real Estate Development		RE Dev. Application: see note		
San Antonio	Create and retain jobs, especially in target industries (mobility, IT security/infrastructure, sustainable energy, corporate services, biosciences, entrepreneurship)	There are many specific categories of projects that are eligible, but all have to demonstrate a need and show a fiscal net benefit	9 Categories - see notes	Grants	Joint Incentive Application: single application for all project types. $2,500 fee	Criteria evaluated qualitatively/case-by-case	City Council approval except professional service agreements <$50k. 6 months max to finalize an agreement
				Loans			
				Property tax abatement			
Houston	Produce a meaningful impact on the City and its economy, especially within manufacturing, research, development, and/or regional service facilities	Must include 1. construction, improvement, or land purchase (>$2.5M), 2. equity investment of $500k+ (loans do not count), and 3. EITHER creation of 25+ new FTE jobs retained for 5+ years, OR deed restricted/affordable housing	No specific project types; case-by-case	Loans, Grants, Tax Abatements	$500 fee, proof of no delinquent taxes, letter describing project, community and fiscal impact, business plan, environmental survey, site plan, and cost estimate when applicable, 2 years of financial statements	Criteria evaluated by a scoring matrix that includes several categories	City Council approval
Fort Worth	Foster growth of target industries, create high wage jobs, focus revitalization on key areas of the city, and retain or expand major employers	Unless meets another category specific criteria, must have an investment component of $25M and create 50+ jobs paying $55,000 minimum average. If development, a 15% M/WBE contractor minimum	Strategic Industries	Grants based on ptax	$2,500 fee, proof of good standing, development/improvement plans when applicable	Categories listed but no scoring methodology provided	City Council approval
			Foundational Competitiveness	Grants based on ptax			
			Full Strength Fort Worth	Grants based on ptax			
			Innovation & Entrepreneurship	Grants based on ptax			
El Paso	Create quality jobs, foster investment, boost tax revenues and consumer spending. Focus efforts in target industries and areas. Support large (regional and national) ventures. Support educational and training efforts. Support STEM graduates and veterans	Either creates quality jobs or adds to tax base; demonstrates potential to generate revenue over cost; increasing private capital investment in community, spurring development in targeted areas or sectors	Quality Jobs	Grants - based on a property tax rebate	Form submitted electronically or by mail. No application fee. Additional documentation includes company insurance, employee benefits, 3 years of financial statements, and property information/pro forma for construction projects	Criteria evaluated qualitatively/case-by-case	City Council approval
			Business Type				
			Capital Intensive Project				
			Increased Productive Capacity				
			Retail Dev. / Destination Retail / Retail Distribution				
			Bonus Incentives				

Source: Economic & Planning Systems

Similarity of Approaches

While not all peer cities focus their Chapter 380 framework solely on creating jobs, job growth is at minimum a minor element of the program. All peer cities include job creation in their general qualifications, although some job creation requirements are only necessary in the absence of meeting another criterion.

Additionally, there are similarities in the types of incentives provided. While no city offered the exact same criteria, all cities included a tax abatement or reimbursement component. However, tax abatement type and structure varied; some cities reimbursed sales taxes, while others reimbursed or directly reduced property taxes.

Differences in Approaches

At a broad level, there are more differences than similarities between the Chapter 380 programs. One major difference between all cities' programs is the structure of project types and their respective incentive tools. Some programs have specific project types—for example, Dallas has four categories of project types such as 'Business Development' or 'Community Impact,' with each category containing its own specific criteria beyond the general program-wide eligibility criteria. The incentives provided for each project type are negotiated case-by-case, with grants, loans, and property tax abatements available to all four categories, and with no specific guidelines on how incentives are awarded.

However, some cities' programs place criteria on the *incentives* rather than the *project categories.* For example, San Antonio lists nine project categories covering general topics such as 'promoting development and investment at and around former military bases' or 'development of a skilled workforce within targeted industries', but the additional criteria lie within the *incentives.* For example, grant eligibility is based on the specifics of job creation such as wage, industry, job retention, and benefits. In this case, applicants are permitted to apply to multiple incentives, i.e., grants and property tax abatement, so long as they meet the eligibility criteria for both incentives.

Additionally, the minimum level of investment required by the applicant varies greatly under the Chapter 380 programs across Texas. For example, San Antonio has no minimum investment requirement, while Dallas requires $1 million or $5 million based on location, and Fort Worth requires $25 million invested in many project categories. The level of investment is based on the types of projects the community is trying to attract or support, with lower barriers to investment allowing for "small business" oriented investments while larger barriers indicate a focus on attraction of larger companies.

Recommendations/Findings

1. ***Other peer cities in Texas have supported a greater number of projects than Austin over the past five years due to a broader approach to the use of incentives.***

   Dallas, El Paso, and San Antonio have reached far more agreements than Austin and Houston in the last five years. In Dallas and San Antonio, these agreements have pledged for the creation of over 8,000 jobs. Dallas achieved this pledged job growth through 26 agreements containing $18 million in loans and $44 million in grants. San Antonio has reached 17 agreements in this period, of which the $46 million of incentives more frequently came in the form of tax rebates and grants. El Paso has reached 33 agreements in the last five years, creating over 3,000 jobs with $12.1 million dollars in property tax reimbursements.

   Dallas’s program provides a consistent minimum threshold/definition for projects to incentivize (attraction of jobs) with a lower threshold for target geographies the incentives programs organized around four specific types of projects. The adaptability in Dallas’ approach stems from its incentives administered to each project category: loans, grants, and tax-based incentives are available to all four categories within the program. San Antonio takes a flexible approach to incentives by listing multiple types of projects they want to fund and then scaling incentives based on the type of project and relative importance/impact.

2. ***The eligibility requirements and minimum investment/job thresholds have a large impact on the number of and types of projects funded. More requirements result in less projects, and larger investment or job requirements means incentives are only available to large businesses.***

   Chapter 380 programs that require minimum investment amounts by the applicant tend to result in fewer agreements. Fort Worth’s Chapter 380 program requires a minimum investment of $25 million and creation of 50+ FTE jobs with wage minimums. This program has reached only six agreements in the last five years, resulting in the creation of 1,908 jobs funded by over $37 million in incentives. Houston’s Chapter 380 program, which requires development costs of $2.5 million or equity investments of $500,000, has resulted in the lowest estimate of job creation in the last five years of the peer communities with two agreements that have pledged a total of 361 jobs with a city investment of over $4 million. Chapter 380 programs are not the only economic development incentive tool present in Texas cities: Houston more often uses Chapter 312 Tax Abatements as their primary incentive tool for business expansion and tends to utilize Chapter 380 agreements when sales tax sharing is a better incentive approach.

In cities where small business, equity, or community development are priority, specific inventive programs are designed for these types of projects (e.g., Dallas) or the overall program criteria is flexible enough to allow for smaller projects to be funded (e.g., San Antonio). These program structures have allowed for the two cities to fund a larger number of smaller projects, resulting in over 8,000 jobs being created. El Paso has similarly taken on many small projects through its approach to Chapter 380 administration. The city's program has focused on smaller projects through elimination of minimum investment levels and other barriers to eligibility. However, the specificity of the categories within El Paso's program has allowed for projects both small and large; "Capital Intensive Projects" are tailored toward regional or national headquarter relocation and provide bonus incentives beyond the "Quality Jobs" requirement that applies to projects of all sizes.

3. ***Austin is unique in its high standards and numerous criteria that need to be met to receive an incentive.***

   Austin has more project requirements that a project must meet to be considered and in addition the number of criteria used to evaluate a project is also greater than its peers. A major difference between Austin and peer city Chapter 380 programs is that Austin's application scoring process can reject applicants even if base eligibility standards are met. Other cities have developed tiered or scaled incentive approaches that increase the incentives (or lower thresholds) based on the type, location, and impact of the project. These approaches provide more flexibility for incentivizing projects that are not able to meet all the objectives the city is trying to achieve.

Peer City Program Reviews

Dallas

Program Objectives and Goals

The overarching goals of Dallas' Chapter 380 program include high-quality job creation, investment in Dallas, and enhanced equity by stimulating the economy of underserved areas, especially in Southern Dallas. Some agreements require development rather than job creation.

Project/Business Eligibility Criteria

General eligibility is split into two major categories by project location. This geographic ruleset is based on enhancing equity. Projects located in South Dallas require either 25 full-time jobs created or a minimum investment of $1 million, while projects in North Dallas or the CBD require either 100 jobs created or $5 million invested.

Types of Projects Funded

Dallas funds four types of projects under its program:

<u>Business Development</u>: Projects in this category have additional requirements including the creation of 50 (or retention of 100) FTE jobs, and a positive fiscal return, as determined by the Office of Economic Development or a third-party consultant.

<u>Community Development/Neighborhood Revitalization</u>: Projects in this category are required to be led by a community-based nonprofit developer, and either create 25 permanent FTE living wage jobs or have a capital investment of over $2 million.

<u>Community Impact</u>: Projects in this category must meet a specific need (i.e., a grocery store in a food desert, or senior care in a neighborhood with an aging population) as well as create 15+ FTE living wage jobs and involve an investment of at least $2 million.

<u>Real Estate Development</u>: Projects within this category do not contain a job creation requirement but must demonstrate a financing gap and make a good faith effort to contract with a woman or minority owned contractor or business (W/MBE).

Incentives Provided

Grants, loans, and property tax abatements are available on a negotiated basis for all four project categories. No details are provided about levels of incentives, such as the amount of property taxes abated or the minimum or maximum grant awards.

Application Process

Dallas has two separate applications for Chapter 380 grants: Real Estate Development applications, and Job Creation applications, which apply to all three other project types.

Scoring/Review Metrics

As the Dallas Chapter 380 program is structured on a *negotiated incentive* basis, scoring criteria is not provided publicly, but rather is reported to be evaluated on a qualitative, case-by-case basis.

Approval Process

Incentives below $1M or including contracts with minority or woman owned developers are approved by administrative action; all other applicants require approval by city council.

Outcomes

Dallas has reached 26 Chapter 380 agreements in the last five years, with a total funding of $62 million. Most of these agreements were in the form of grants, which totaled $44 million. Although the program allows tax abatements, few agreements included incentives in this category. The city reported that 8,763 jobs were created through these agreements.

Houston

Program Objectives and Goals

Houston’s Chapter 380 program focuses on producing a meaningful impact on the city and its economy, especially within manufacturing, research and development, and/or regional facilities.

Project/Business Eligibility Criteria

General eligibility is split into several options, but all projects must demonstrate the financial need for incentives.

- Must demonstrate a financial gap and conduct a “but-for” analysis
- Must include either:
    - Construction, improvement, or land purchase of at least $2.5 million, *or*
    - Equity investment of at least $500,000;
- Must include *either:*
    - Creation of at least 25 new FTE jobs retained for at least five years, *or*
    - Deed restricted/affordable housing.

Types of Projects Funded

There are no specific project categories, and agreements are reached on a case-by-case basis.

Incentives Provided

Grants, loans, and property tax abatements are available on a case-by-case basis with minimal additional criteria for each. All incentives have a maximum term of 10 years. Grants are performance-based, with recourse to repayment if performance levels are not met.

Application Process

Houston's Chapter 380 program application includes a $500 application fee and requires proof of good standing, community and fiscal impact reports, relevant development plans and surveys, and two years of financial statements.

Scoring/Review Metrics

The Houston Chapter 380 scoring criteria is based on a quantitative matrix of scores in the following categories: project details, industry classification, equitable benefits, community benefits, city development priorities, layered investment, and quality of life. There is not an overall scoring process; agreements are reached by negotiations, and the scoring matrix only provides reference for the award process.

Approval Process

All Chapter 380 incentive agreements in Houston require city council approval.

Outcomes

Houston has reached two incentive agreements in the last five years. One of these agreements granted Meow Wolf Immersive Art Experience up to $2.7 million in sales tax reimbursement, totaling 90% of sales taxes. In return, Meow Wolf pledged to create 127 jobs, with a minimum of 25% hired locally. The second agreement reached in the last five years concerns the development of a retail commercial center, which the city allowed reimbursement of 100% of incremental sales tax revenue. The project pledged to create 234 jobs.

San Antonio

Program Objectives and Goals

San Antonio's Chapter 380 program focuses on the creation and retention of jobs in self-defined 'target industries.' These industries include mobility, IT security and infrastructure, sustainable energy, corporate services, biosciences, and entrepreneurship.

Project/Business Eligibility Criteria

Basic eligibility requires a 'but-for' analysis demonstrating need, and a fiscal net benefit. Beyond the general eligibility criteria, there are several sub-categories.

Types of Projects Funded

There are nine major categories of eligible projects within the Chapter 380 program. These include:

- Attraction and retention of companies, domestic and international, that plan to create jobs and investment in 'targeted industries' including corporate headquarters;
- Retention/expansion of local companies, including corporate headquarters, that are considering relocating and/or expanding outside of San Antonio;
- Promoting development and investment at and around former military bases, in identified corridors, and within State Enterprise Zone census tracts;
- Promoting targeted development and investment in regional centers as defined by SA Tomorrow Comprehensive Plan;
- Programs involving the scaling up of research, innovation, startups, or entrepreneurial development, leading to commercialization of new technologies, products, or services in the 'targeted industries,' although the company must demonstrate two years of a good track record and matched private dollars;
- Training, recruitment, and development of a skilled workforce to support growth in the 'targeted industries' and creative industries;
- Infrastructure, facilities, and equipment to support growth in the targeted industries;
- Events, marketing, sponsorship, programs, etc., that support the targeted industries;
- Projects, programs, or initiatives that directly create or retain jobs in targeted or creative industries.

Incentives Provided

Grants, loans, and tax rebates are all available for Chapter 380 agreements. The criteria and awarding process for agreements are based on the incentive sought by the agreement, and are as follows:

- Grants
  - The amount of payout is based on the amount of capital investment, location of project, job creation and retention levels, salary, industry, and entrepreneurial nature of the project.
  - Additional eligibility requirements:
    - » Applicant's primary business is in a target industry *and*:
      - 100% of all employees are paid at least the median income ($53.4k)
      - At least 90% of employees earn at least 150% of median income ($80.1k)

  - All new full-time jobs must be filled and maintained for three years.
  - Workers' compensation and health benefits are provided for all full-time employees.
- Loans
  - Loans are limited to the amount of new taxes generated by the proposed development over a 5-year period. Loans up to $1 million are available for projects located in a regional center, and loans up to $500,000 are available for projects located elsewhere. Terms and rates are negotiated on a case-by-case basis.
- Tax Rebates
  - All FTE must be paid at least entry wage ($17.50) for the entire agreement term;
  - At least 90% must be paid median wage ($20.54);
  - All employees must be provided with workers comp and healthcare benefits;
  - 10% of annual abatement must be dedicated to a spending account for training, childcare, or transit for employees;
  - Additional minimum investment levels and minimum job creation requirements are outlined in the table below:

Tier	Hourly Wage		Minimum Capital Investment		Minimum No. Of Jobs Created	Base Tax Abatement
1	$20.54	AND	$10M	AND	50	**20%**
2	$25.00	OR	$25M	OR	200	**30%**
3	$30.00	OR	$50M	OR	400	**40%**
4	$35.00	OR	$100M	OR	600	**50%**
5	$40.00	OR	$150M	OR	800	**60%**
6	$45.00	OR	$250M	OR	1000	**70%**

  - An additional 10% abatement is available if three requirements are met:
    - » The project is located in regional center;
    - » The project concerns a targeted industry;
    - » The project is located in a census tract that scores at least 7 in the San Antonio Equity Atlas
  - There is a catalytic project exception with a caveat that projects that meet tier 6 of the matrix can obtain additional incentives for infrastructure, site work, and financing.
  - The tax rebate term schedule is as follows:

Maximum Abatement Term	Minimum Requirements
3-4 years	Less than $50M invested or less than 400 Jobs
5-6 years	$50M - $99M or 400-599 Jobs
7-9 years	$100M - $249M or 600 - 999 Jobs
10 years	$250M+ or 1000+ Jobs

Application Process

San Antonio's Chapter 380 program application operates under a single 'Joint Incentive Application.' Applicants can apply for multiple types of incentives, so long as the eligibility criteria are met. The application involves a $2,500 fee, with an additional $2,500 if the project requires legislative assignments or amendments.

Scoring/Review Metrics

No quantitative scoring methodology is publicly available for San Antonio's Chapter 380 program; criteria are evaluated on a qualitative, case-by-case basis, although the number of finalized agreements in the last five years indicates that this process is relatively uncompetitive, so long as eligibility criteria are met.

Approval Process

All agreements must be reached within a six-month time frame. Agreements require city council approval with the exception of professional services agreements under $50,000.

Outcomes

San Antonio has reached 17 Chapter 380 agreements in the last five years, resulting in the creation of 8,092 jobs. With approximately $46 million in total funding, around half of these agreements have contained a grant component, with the remaining half providing tax rebates. Few agreements have contained a loan component.

Fort Worth

Program Objectives and Goals

Fort Worth's Chapter 380 program focuses on growing target industries, creating high wage jobs, focusing revitalization on key areas of the city, and retention/ expansion of major employers.

Project/Business Eligibility Criteria

Unless the project meets the specific requirements of another category, the project must have an investment component of $25 million or more, and create 50 or more jobs paying at least $55,000 on average. If the project is a development project, a good faith effort must be made to contract with M/WBE contractors for at least 15% of the work.

Types of Projects Funded

Fort Worth has organized its Chapter 380 program into four focus areas, which contain specific subcategories.

Strategic Industries:

- **Target Sectors Projects** – Projects within mobility, aerospace and defense, energy, culture, and “anchors and innovators,” which includes corporate headquarters, life sciences, engineering, and technology. For these projects, the amount of a 380 incentive will be based on a percentage of annual sales and/or property taxes.
- **General Projects** – Any projects that do not fall under a target sector, or qualify for other categories, are considered a general project. The incentives operate in the same manner as a function of tax revenue, but it has lower rates of incentive.
- **Business Expansion Projects** – Require a lower investment threshold ($10 million) and require the creation of at least 25 new jobs paying $55,000 or more on average.
- **Mega Projects** – Mega projects require an investment of $250 million or more. In terms of employment requirements, the project must result in 1,500+ jobs being created, or a total payroll of $150 million.

Foundational Competitiveness:

- **Central Business District** – If a project is located within the CBD, it must employ 50+ FTE, meet the “existing business” criteria, or be relocating in from outside the DFW MSA. Bonus incentives for redeveloping parking lots.
- **Full-Service Hotels** – Case-by-case consideration of location, market conditions, historical preservation/adaptive reuse features. There is a matrix outlining # rooms and amenities required.
- **Mixed-use Affordable Housing** – Requires 10% of units at 80% AMI, and 10% at 60% AMI.
- **Open Space Preservation** – Case-by-case bonus incentive.
- **City-Owned Property** – Case-by-case incentive for property owned by the city.

Full Strength Fort Worth:

- **Catalytic Development Projects** – Projects must be located in a designated investment zone or CBD, commit $5M in investment, and does one of the following: mixed use dev, "filling a gap/need" (i.e., grocery store in food desert), located on commercial corridor, generates significant jobs, create a hub of entrepreneurial activity.
- **Transit-Oriented Development** – TOD projects must commit at least $5 million in investment.

Innovation and Entrepreneurship:

- **Research and Development** – The amount of the incentive depends on the location of the project. Recipients can receive up to 50% reimbursement for qualified expenses.
- **Technology Projects** – Tech companies must employ at least 5 FTE.

Incentives Provided

Most incentives offered in Fort Worth are one-time or annual grants that are calculated and awarded as a percentage of property tax, sales tax, or both. Many subcategories of the program contain unique schedules of rates for incentive calculations.

Application Process

Fort Worth's Chapter 380 program application includes a $2,500 application fee and requires proof of good standing, and relevant development plans and surveys when applicable.

Scoring/Review Metrics

The Fort Worth Chapter 380 scoring criteria is based on a quantitative matrix of scores in the following categories: types, number, and quality of new jobs created; percent of construction contracts committed to Fort Worth companies; financial viability of the project; increase in tax base; costs to the city; type of industry and activities associated with the project site; and foreign status of the company and/or capital investment sources from outside the U.S. It is unclear whether the scoring framework uses a quantitative scoring method or evaluates these criteria case-by-case.

Approval Process

All Chapter 380 incentive agreements in Fort Worth require city council approval.

Outcomes

Fort Worth has entered into six Chapter 380 agreements in the last five years. The amount of grants awarded during this time totals between $20 and $40 million. Exact numbers are difficult to calculate due to the calculation of incentives under this program; grants are awarded as a percentage of property and/or sales taxes and may fluctuate throughout a project's life cycle. However, these six projects have pledged to create a combined 1,908 jobs.

El Paso

Program Objectives and Goals

Beyond standard economic development goals such as job creation and fiscal health, El Paso's Chapter 380 program aims to attract and support regional and national ventures, foster strong educational and training programs, and support the STEM labor force and veterans.

Project/Business Eligibility Criteria

The project should create quality jobs or add to the tax base, demonstrate potential to generate revenue over cost, increase private capital investment in the community, follow the city's goals by, for example, spurring development in targeted areas or sectors, and provide insurance benefits to employees. These criteria are not a steadfast checklist and can rather be seen as guiding principles. However, the program includes the following requirements:

- Upon request, provide all credible documentation required to conduct a fiscal impact analysis.
- Demonstrate financial stability and capacity to complete the project in a timely and legal manner.
- Commit to good faith efforts to hire and train employees through the local workforce board.
- Stay in financial good standing with taxes and all other obligations to the City of El Paso.

Types of Projects Funded

El Paso's Chapter 380 program consists of six project types, each with their own specific criteria and incentives. Many of the project types build upon one another, starting with the baseline hiring standards.

1. <u>Quality Jobs</u>: A project is eligible for a 40% property tax reimbursement if all proposed positions within a project pay a wage at or above the position-specific median county wage.
2. <u>Business Type</u>: If a business satisfies the "Quality Jobs" requirement and identifies with at least one of the following descriptions, the project is eligible for 10% additional property tax reimbursement, for a total of 50% rebate.
    - Project is within a target industry (advanced logistics, manufacturing, business support services, defense and aerospace, life sciences, or tourism)
    - The market for the service or product provided under the project is regional, national, or global.
    - The proposed facility regarding the project is located within one of the target areas defined by the city.

3. Capital Intensive Project: If a project satisfies the "Quality Jobs" requirement and:
   - Proposes capital investment of $30-$49 million: it is eligible for a 60% total property tax reimbursement (10% bonus on Quality Jobs)
   - Proposes capital investment of $50 million or more: it is eligible for a 70% total property tax reimbursement (20% bonus on Quality Jobs)
4. Increased Productive Capacity: If a project proposes to enhance the local supply chain, verifiably and directly related to any identified target industry, the company is eligible for a 50% baseline property tax reimbursement.
5. Retail Development/Destination Retail/Retail Distribution Center: This category is intended to encourage development or expansion or retail operations. The project must embody a retail opportunity that aligns with the vision for the area and fulfills an unmet demand. The City may provide property tax rebates equal to the proportion of the City's portion of the property tax and/or sales tax increment attributable to property improvements or upgraded tenant mix. These incentives will be agreed upon on a case-by-case basis, up to 100%.
6. Bonus Incentives: To be eligible under this section, a company must first establish eligibility in ONE of the project categories listed above. An additional 10% rebate amount, not to exceed 100%, may be earned if:
   - Applicant proposes to locate their corporate HQ within the City of El Paso.
   - Applicant proposes to locate their Research and Development facility within the City of El Paso. 25% of the total jobs at the facility must be Research and Development related or directly support R&D.
   - Applicant proposes to actively employ 15% veterans.
   - Applicant proposes to hire and train a portion of their employees through the local workforce board, Workforce Solutions Borderplex and qualified training institutions.
   - Applicant proposes to engage with the local workforce board, Workforce Solutions Borderplex and qualified training institutions in formal collaborations or business partnerships such as mentoring, internships, and other programs which provide employees with the latitude to complete minimal educational attainment (e.g., G.E.D. or High School Diplomas).
   - Applicant proposes to relocate/expand operations within the City of El Paso with aggregate wages at a minimum of two times the prevailing Median County Wage.
   - 80% of a company's total proposed occupations are STEM-related.

Incentives Provided

El Paso's Chapter 380 program primarily revolves around tax rebates/reimbursements. For most projects, these incentives come in the form of property tax rebates. Amounts are calculated based on percentages of taxes paid.

Application Process

El Paso's Chapter 380 program application is a standard form submitted electronically or by mail. There is no application fee associated with the form. The following documents should be attached with the application form: company insurance, health insurance benefits, three years of financial statements, and property information and development pro-forma for construction projects.

Scoring/Review Metrics

The program does not publicly list scoring criteria or additional metrics beyond what is stated in the project categories' eligibility. Applications are accepted and negotiated on a case-by-case basis through the City Council.

Approval Process

The City of El Paso Economic and International Development Department is charged with developing a recommendation to the city council. All incentive packages will be limited to a maximum rebate or abatement level of 100% of the incremental value of property taxes (real and personal) collected in any given year unless otherwise approved by specific council action. Final percentages of all grants will be at the sole discretion of the city council.

Outcomes

El Paso has reached the most Chapter 380 agreements of all the major Texas cities in the past five years. The City has approved 33 agreements during this time, funding the program with $12 million in total. These agreements have resulted in the creation of approximately 4,000 jobs. Relative to many of the other Texas cities' Chapter 380 programs, El Paso's program tends to reach smaller, but more frequent agreements. Many agreements have concerned development projects; however, the overall ratio of jobs created to dollars awarded is far more effective than many other cities' Chapter 380 programs.

4. National Peer City Best Practices

Approach

Austin is one of the country's fastest growing state economies, showing a growth in GDP of over 4 percent in 2022.[1] As such, the City is in a unique position to leverage business incentives. This section examines the business expansion programs of other fast-growing cities across the country with similar ability to offer incentives. The research describes the goals, eligibility criteria, and incentives provided by five case study cities: Nashville, Phoenix, Atlanta, Raleigh, and Charlotte.

Summary of Best Practices

Like Austin, the cities detailed in this section focus on increasing local job creation through tax incentives and grant programs. Some programs are geared specifically toward major investments while others focus specifically on the growth of small businesses. Similarly, some programs focus on attracting new business while others aim to preserve affordability for existing businesses. Programs in this section are summarized in **Table 4** on page 31.

Similarity of Approaches

Like Austin, most peer cities support business expansion and relocation through tax incentives. It is a consistent prerequisite of these programs that jobs pay at or above the median county wage or a similar wage requirement. Most programs also require healthcare coverage for new positions. Several cities have similarly identified bonus points in evaluation criteria for companies in target industries and/or hiring from target populations. Additionally, a few of the programs weigh incentives based on the assessment of economic and community benefit created by the business. Austin's approach to the economic and community assessment is more comprehensive than that of other cities in that it.

Differences in Approaches

In addition to external relocation and local expansion support, several cities offer funding that focuses on investment in a targeted geography. For example, Raleigh created a zone within the city that eliminates the minimum investment and increases the incentive available through the state's Credit for Investing in Business Property. This could be of particular interest to Austin for projects that provide investments in the historically underinvested Eastern Crescent.

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[1] 10 U.S. cities that are growing the fastest (cnbc.com)

Another incentive type potentially of interest to the Austin business community is historic preservation. Atlanta's Landmark Historic Property Tax Abatement Program freezes the property value of landmark buildings to maintain affordability of property taxes for income producing buildings. Austin has two similar programs: tax abatement for historical districts and tax exemption for historical landmarks. For properties rehabilitated within an historic district, owners are eligible for a tax abatement of up to 40 percent of the property's rehabilitation value. The application of the Austin program appears to be for historic landmarks and historic homes, whereas the Atlanta program is focused on "income producing" properties (i.e., commercial buildings). This is also the only example of Austin using tax abatement.

Table 4 National Peer Incentive Program Overview

City	Program	Goals	Project Types	Qualifications
Nashville, TN	**Work Opportunity Tax Credit**	Incentivize private employers to hire people facing barriers to employment	Targeted Hiring	Level of tax credits based on the target group of individuals being hired, wages paid to the new hires, and amount of hours worked
	Entertainment Franchise and Excise Tax Credit	Capitalize on and expand Tennessee's entertainment industry	Targeted Industry	Minimum spend of $50,000 post-production
	FastTrack Assistance	Offset costs of relocation and expansion	External Relocation and Local Expansion	Eligibility and incentive determined by number of new jobs created, wages paid, location of the project, and amount of company investment
	Fast Growing Companies	Assist small business expansion	Local Expansion	Company must have less than 100 employees and add at least 10 new jobs that pay above Nashville's average wage
Phoenix, AZ	**Qualified Facility Tax Credit**	Promote the location and expansion of manufacturing facilities	Targeted Industry	In the first year of operation the company must make an investment of at least $250,000 to establish or expand a facility in Arizona that devotes at least 80% of the square footage to either manufacturing or R&D
	Quality Jobs Tax Credit	Encourage business investment and quality employment opportunities	Job Creation	Must make a minimum investment of $5M and create at least 25 new jobs that pay median county wage
	Arizona Competes Fund	Attract and retain Arizona businesses, support the growth of small businesses, and enhance economic development	External Relocation and Local Expansion	Must pay at or above county median wage and provide health benefits
Atlanta, GA	**New Market Tax Credits**	Attract private investment to low-income neighborhoods	Targeted Geography	Projects must invest over $5M in Census-designated low-income neighborhoods
	Landmark Historic Property Tax Abatement	Maintain affordability for landmark sites	Historic Preservation/Affordability	Property must be listed in the National or Georgia Register of Historic Places and be designated by the City of Atlanta as a Landmark Building
Raleigh, NC	**One North Carolina Fund**	Attract competitive job-creation projects.	Job Creation	Funds must only be used for equipment purchase or installation or the construction, repair, or renovation of proposed or existing buildings
	Credit for Investing in Business Property	Incentivize job creation and property investment	Job Creation	Company must be in an eligible industry and make a minimum investment of $2M
	Job Development Investment Grant	Encourage quality job creation	Job Creation	Must create at least 50 new jobs
Charlotte, NC	**Business Investment Grant**	Support companies relocating or expanding in Charlotte	External Relocation and Local Expansion	Requires minimum investment of $3M and creation of at least 20 new jobs at the average wage rate

Recommendations/Findings

1. ***Peer cities have created programs to target investment toward the areas of most significant need.***

   Focusing investment opportunities on specific areas could have targeted outcomes for the City. Additionally, as the City currently has a program for targeted hiring of people facing socioeconomic barriers to employment, a location-specific program for low-income areas of the city could further increase opportunities for these residents and potentially decrease commute times. Peer cities (e.g., Raleigh) make thresholds/criteria for receiving incentives lower or the incentives provided greater when projects are in target areas.

2. ***Some peer cities have used their program to leverage investments being made in the community to create training opportunities and other workforce development efforts.***

   Tennessee's FastTrack program funds training for new employees. The program supports employees in career transitions and develops a pipeline of services beyond initial job opportunities. This program is an example of how cities can leverage the job growth coming to their communities (without incentives) to further community objectives.

3. ***Peer cities have created programs that focus on and prioritize support for small businesses.***

   Affordability is a significant issue for small businesses in Austin. Adding a project type that focuses on the needs of emerging businesses and/or maintaining affordability for legacy businesses could lower barriers to business growth in the city. For example, in addition to focusing on attraction and retention of Arizona businesses, the Arizona Competes Fund supports programs for microenterprises and small businesses. Specifically, 30 percent of the funding for the program must be used for grants supporting the advancement of microenterprises.[2]

4. ***Peer cities provide higher per job incentives.***

   Several peer city programs provide incentives that exceed Austin's $1,800 per employee credit. Phoenix uses Arizona's Jobs Tax Credit that provides $9,000 over a 3-year period per new employee. Additionally, some cities provide higher incentives based on the target that applies to the new hire. For example, the Work Opportunity Tax Credit (WOTC) used in Nashville provides $4,000 per hire for long-term TANF recipients and $9,600 per hire for disabled veterans.

[2] 41-1545.02 - Grants from the Arizona competes fund (azleg.gov)

Peer City Program Reviews

Nashville

Business Expansion Programs

Nashville supports business expansion and relocation through a mix of federal, state, and local programs. The Work Opportunity Tax Credit (WOTC) is a federal targeted hiring initiative that aims to both incentivize employers to hire individuals from targeted groups and increase employment opportunities for people who have faced significant barriers to entering or reentering the workforce.[3] The WOTC program returned almost $161M in tax credits to Tennessee employers in 2020.[4] Tennessee's FastTrack Assistance funds the training of new employees for new or expanding companies. The Fast Growing Company Incentive is a similar program targeted specifically at small businesses experiencing significant growth in Nashville.[5] The local program was created by Nashville City Council in 2013 with $1M in seed funding to support both employment and the redevelopment of commercial buildings. Since then, the number of required hires has decreased, making the program more accessible to small businesses.

In addition to Nashville's business expansion programs, the City also deploys the state's Entertainment Franchise and Excise (F&E) Tax Credit to support growth in the entertainment industry. The Tennessee Entertainment Commission launched this incentive program in 2022 to build upon the state's momentum in entertainment.

Eligibility Criteria

The Work Opportunity Tax Credit is available to companies hiring from any of the following target groups:[6]

- Temporary assistance for needy families recipients (TANF)
- Unemployed and disabled veterans
- Ex-felons
- Individuals living in empowerment zones and rural renewal counties.
- Vocational rehabilitation referred individuals
- Summer youth employees (living in empowerment zones)
- Supplemental nutrition assistance program (SNAP) recipients
- Supplemental security income (SSI) recipients
- Long-term unemployment recipients

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[3] Work Opportunity Tax Credit (tn.gov)
[4] WOTC Handbook 2023 (tn.gov)
[5] Metro Nashville Small Business Incentives Report (as of March 2019)
[6] WOTC Handbook 2023 (tn.gov)

The Fast Growing Company Incentive is available to companies with less than 100 employees that add 10 or more jobs in a year. The added jobs must pay more than the average wage for Nashville. Similarly, as the FastTrack Grant Program is a statewide program it requires that new jobs meet or exceed the median county wage.

The Entertainment F&E Tax Credit applies to “qualified productions” defined by the Entertainment Commission as the following:[7]

- Scripted and unscripted television
- Feature films
- Video game development
- Animation
- Commercials
- Audio/visual postproduction

Each production type has a varying minimum investment ranging from $50,000 for post-production, $100,000 for non-scripted, video game, animation, and commercials, and $500,000 for scripted film and tv.

Incentives Provided

The WOTC provides a credit ranging from $1,200 to $9,600 per employee depending on the hiring group as shown:

- Up to $4,800 to $9,600 for disabled veterans
- $4,000 for long-term recipients of TANF
- $1,200 for summer youth employees
- $2,400 for all other target groups

FastTrack Assistance provides varying grants depending on the number of jobs created, wages paid, and amount of a company’s investment. In cases where a business investment is especially significant, the state may fund expenses other than training as well under the FastTrack Economic Development Fund. As there is no standard incentive amount, the Tennessee Department of Economic and Community Development indicates a significant range of grant funding reaching up to $40,000,000 in Montgomery County through the state’s FastTrack program.[8] The Fast Growing Companies program is a much smaller local program that provides $500 per employee and $750 for each veteran hired. This program is capped at a maximum payment of $50,000 for individual businesses.

[7] Tennessee Entertainment Commission Launches New Incentive Program (tn.gov)
[8] FastTrack Projects Pending Contract (tn.gov)

The state's new Entertainment F&E Tax Credit provides 40% to 50% of F&E tax credit against payroll taxes and 9.25% to 9.75% point of purchase sales tax exemption on all taxable goods.[9]

Application Processes

Nashville's programs require an online certification process where a company completes an application indicating the amount of jobs created and investment made. For the WOTC, employers must also indicate from which target group they are hiring.

Phoenix

Business Expansion Programs

The Qualified Facility Tax Credit program promotes the location and expansion of manufacturing facilities, including manufacturing-related research and development or headquarters facilities.

The Quality Jobs Tax Credit program encourages business investment and quality employment opportunities by providing tax credits to employers creating a minimum number of net new quality jobs and making a minimum capital investment in Arizona.[10]

The Arizona Competes Fund supports two grant programs: grants attracting, expanding, or retaining Arizona Basic Enterprises and grants supporting programs for microenterprises, rural businesses, and small businesses. In 2017, the state specified that 30 percent of the funding for the program must be used for grants supporting the advancement of microenterprises.[11]

Eligibility Criteria

To receive funds under any of Arizona's programs, companies must cover at least 65% of employee health insurance premiums and pay at or above county median wage. The qualified facility program requires an investment of at least $250,000 to establish or expand a facility in Arizona that devotes at least 80% of the square footage to manufacturing or research and development or headquarters for a manufacturing company. Additionally, facilities must create new full time employment opportunities, of which a majority pay at least at or above 125% of the median annual wage for production occupations in Arizona. The jobs tax credit requires that a company make a minimum investment of $5M and create 25 new jobs at or above the county median wage.

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[9] F&E Incentive | Tennessee Entertainment Commission (tnentertainment.com)
[10] QJTC- Rules and Guidelines (azcommerce.com)
[11] 41-1545.02 - Grants from the Arizona competes fund (azleg.gov)

Incentives Provided

The Qualified Facility Tax Credit program provides a refundable tax credit equal to the lesser of 10% of the company's investment or $20,000 per new employee. The Quality Jobs Tax Credit Program provides $9,000 in credits over a three-year period per new employee. Grants from the Arizona Competes Fund are awarded in accordance with the assessed economic impact of the grant. Since the fund's inception, the average grant payment per created job has been $2,563.[12]

Application Processes

To receive tax credits, a company must submit a Request for Pre-Approval to the Commerce Authority that details the number of jobs created and associated salaries over a three-year period and the expected capital investment over the next year. Commerce will then send a notification of pre-approval identifying the number of credits reserved, which typically corresponds to the number of jobs anticipated over the three-year period.

Companies applying for funding under the Arizona Competes Fund must demonstrate the proposed economic impact by indicating estimated annual tax revenue, employment and wage estimates, and general public benefit. Commerce then must specify the benefits expected from the business when granting the award.[13]

Atlanta

Business Expansion Programs

Atlanta operates two main tax credit programs that offset costs for businesses: the New Market Tax Credits and the Landmark Historic Property Tax Abatement Program. New Market Tax Credits (NMTC) are a federal program that provides financing for the construction of new facilities, equipment purchase, and operating expenses for businesses with projects in Census-designated low-income neighborhoods. The projects funded through the NMTC program provide services and/or creates jobs for the residents in these target areas.[14] Since 2007, Atlanta Emerging Markets, Inc. (AEMI) has deployed over $258M in credits through the federal NMTC program. Unlike the NMTC program, Atlanta's Landmark Historic Property Tax Abatement Program applies across the city. The program helps historic properties maintain affordability by freezing assessed values to avoid increased property taxes. In addition to these tax programs, Atlanta also offers several loan opportunities to support small businesses.

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[12] Microsoft Word - ACF_AnnualReport_FY22_FINAL (azcommerce.com)
[13] 41-1545.02 - Grants from the Arizona competes fund (azleg.gov)
[14] Atlanta Emerging Markets

Eligibility Criteria

To qualify for New Market Tax Credits, businesses must invest over $5M in Census-designated low-income neighborhoods. To qualify for the Landmark Historic Property Tax Abatement, a building must be listed in the National or Georgia Register of Historic Places and be designated by the City of Atlanta as a landmark building.

Incentives Provided

AEMI receives federal NMTC allocations through a competitive application process each year. AEMI then sells credits to private investors in exchange for equity that is then provided to local projects with demonstrated community impact. The investor equity typically covers 20% of total project costs. In combination with the local developer's capital stack, the funds are distributed as a 7-year interest only loan with 1-2% interest rates. The 20% of funding provided through private investor financing using NMTCs is typically forgiven.[15]

The Landmark Historic Property Tax Abatement Program provides preferential property tax treatment by freezing a property's value at the current fair market price for eight years. In the ninth year, the property value is fixed at one half the difference between the frozen value and the updated fair market value.

Application Processes

Applicants for the New Market Tax Credit must submit an intake application detailing the project's impact cost, and timeline. For the Landmark Historic Property Tax Abatement Program, applicants must submit an application to the Atlanta Urban Design Commission.

Raleigh

Business Expansion Programs

Raleigh leverages statewide programs for local job creation through three key programs: One North Carolina Fund, Credit for Investing in Business Property, and the Job Development Investment Grant. The Credit for Investing in Business Property offsets state income and/or franchise tax liability for eligible taxpayers depending on the level of investment and number of jobs created. The One North Carolina Fund and the Job Development Investment Grant (JDIG) on the other hand, are discretionary incentive programs awarded only to companies in competitive job-creation situations.[16] [17] JDIG is a particularly significant program that provides grants over an average term of 10 years for relocation and expansion. Since the program started in 2003, the state has disbursed over $450M to companies for the creation of over 55,000 new jobs across the state.[18]

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[15] Atlanta Emerging Markets
[16] Job Development Investment Grant (JDIG) | NC Commerce
[17] One North Carolina Fund | NC Commerce
[18] download (nc.gov)

Eligibility Criteria

Each of Raleigh's programs requires that companies pay at or above the county wage standard and provide health insurance to employees. Each program has its own additional eligibility requirements.

The Credit for Investing in business property tax credits allow businesses to claim a credit based on a portion of property investment in excess of a threshold. To qualify for a credit, companies typically must make a minimum $2M investment, but Raleigh has created an Urban Progress Zone to enhance the incentive and eliminate the threshold for investments made in this zone. Eligible industries include the following:[19]

- Aircraft maintenance and repair;
- Air courier services hub;
- Company headquarters that creates at least 75 new headquarters jobs;
- Customer service call centers;
- Electronic shopping and mail order houses;
- Information technology and services;
- Manufacturing;
- Motorsports facility or motorsports racing team;
- Research and development;
- Warehousing and wholesale trade.

As discretionary grant programs, One North Carolina Fund and the Job Development Investment Grant award funding to projects only in competitive recruitment or retention situations. To qualify for the One North Carolina Fund, a project must use the funds for construction of—or improvements to—buildings, or installation or purchase of equipment. Additionally, projects will only be considered if they are competitive with locations outside of the state. While the JDIG program requires a minimum creation of 50 jobs, awards are granted to projects based on the economic impact of competing projects, so grantees are more likely to receive funding for projects that create a higher number of jobs.

Incentives Provided

The Credit for Investing in business property tax credits allow companies to claim a credit for 3.5% of eligible costs citywide and 7% for costs in the city's urban progress zone.[20]

The One North Carolina Fund provides funding on an ongoing basis, but projects are subject to availability of funds. Each grant is distributed into 25% increments in relation to the number of jobs created. For example, a company committed to creating 100 jobs is eligible to receive 25% of the award once 25 jobs have been created.

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[19] TAX CREDIT SUMMARY (durhamnc.gov)
[20] Job Creation and Investment Based Incentives | Downtown Raleigh, NC

The JDIG program is available only to very large projects and pays performance-based awards. The awards are calculated on an individual basis by weighing the number of jobs created and wages associated with the new jobs, level of investment, and the company's industry sector.[21] For especially large programs the state allows increased incentives beyond cash grants in the form of tax reimbursement. Companies that create above 1,750 jobs and invest over $500M are eligible for reimbursement of up to 90% of the new personal income withholdings, for a period up to 20 years. Furthermore, a company that creates 3,000 jobs and invests $1 billion in the state is considered a JDIG "transformative project" and is eligible for reimbursement of to 90% of the new personal income withholdings, for a period up to 20 years.

Application Processes

The Credit for Investing in Business Property may be claimed by eligible businesses in equal installments over four years following the taxable year in which the eligible property investment is made.[22]

For grant programs, prospective businesses first meet with a project manager at the Economic Development Partnership. Only businesses considered good candidates are encouraged to apply, then project managers help each find the most applicable relocation or expansion assistance.[23]

Charlotte

Business Expansion Programs

In addition to North Carolina's statewide programs described above, Charlotte also has a local business incentive program. The Business Investment Grant supports companies relocating to Charlotte or expanding within the city through property tax reimbursements. While companies of all industries are eligible, companies within target industries may be eligible for higher tax reimbursement. Since 2018, 20 companies across eight industries have been awarded incentives. The program has assisted in creating over 7,500 jobs and retaining 4,700.[24]

Eligibility Criteria

To qualify for a standard Business Investment Grant, a company must invest a minimum of $3M and create at least 20 new jobs at the City's average wage rate.[25] Companies within the following target industries may be eligible for higher tax reimbursement:

- Headquarters (corporate, divisional, and regional)
- Financial services

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21 Job Development Investment Grant (JDIG) | NC Commerce
22 G.S. 105-129.88 (ncleg.gov)
23 Job Development Investment Grant (nc.gov)
24 Incentives - Charlotte (charlotteopenforbusiness.com)
25 2022-City-of-Charlotte-Incentives-Overview.pdf (charlotteopenforbusiness.com)

- Technology and fintech
- Logistics and distribution
- International business
- Health care
- Advanced manufacturing
- Automotive industry

Incentives Provided

At the minimum level of spending and job creation, companies within target industries receive three years of 90% tax reimbursement while companies in other industries receive 50% reimbursement. Companies may receive reimbursements for up to 10 years depending on the level of investment and number of jobs created. In addition to the baseline reimbursement, companies with an existing presence in Mecklenburg County receive a two-year extension.

Application Processes

To receive grant funding companies must first submit an application detailing the investments, jobs created and associated salaries. After an application is submitted, it typically takes four weeks to schedule a closed session notice of intent vote. The City Council first gives an intent to approve in a closed session vote then the grant goes to a public approval in a City Council Open Session. When considering approval, the City evaluates whether there is demonstrated competition from other cities that makes the relocation or expansion to Charlotte realistic. Additional criteria include a certification by the company that the local incentives would be required to execute the relocation or expansion.

5. Program Review and Recommendations

This chapter provides a summary of the second phase of the program review. A program process assessment is provided building on the findings of the best practice research and feedback from stakeholder outreach. The economic and financial performance agreements are assessed, and program gaps identified. Lastly, specific recommendations for changes to the existing program(s) are provided.

Program Process Assessment

The program process assessment considered three major inputs. First, the findings from the best practice research are used as a lens to evaluate Austin's program. Second, feedback from stakeholder outreach is used to evaluate how the program could/should work in Austin from the local community's perspective. Last, the performance of the handful of agreements that were executed since 2018 was considered.

Outreach Feedback

The economic development department staff completed a series of six stakeholder meetings to support the updates of the Chapter 380 program. The meetings were focused on two components of the program; the structure and eligibility criteria and the community benefits/outcome metrics produced through the program.

Program Structure

The program structure and eligibility criteria outreach meetings focused on business expansion and external relocations. The meetings included members from economic development and business support entities active in Austin. The meetings focused larger business expansions and relocations and small business expansion/support. The purpose of these meetings was to focus on how the program structure can be improved.

<u>Minimum Requirements</u>

Three of the minimum requirements for the overall business expansion program were the topics of discussion.

1. First, the need for an inducement statement (i.e., "But For") was discussed related to whether or not this should apply to small business expansion incentives. Some stakeholders wondered why this was needed if the City was already specifically targeting support for small businesses. Isn't the stated purpose of supporting small business growth enough justification for the program?

2. Second, the living wage requirement was seen as a major barrier to participation and compliance. Specific concerns included the potential for annual changes to the wage level, the requirement that all existing, Austin based jobs for the employer must be increased to meet living wage, and the lack of a compliance ramp up period.
3. Third, the health insurance benefit requirement was cited as potentially being too onerous on small businesses, especially businesses under 50 employees that do not have to provide health care under Federal law. Alternative or flexible compliance options were suggested especially for small businesses.

<u>General Eligibility</u>

The general eligibility requirements vary for the three focuses of the Business Expansion program. Most stakeholder discussion focused on eligibility of the Category 1 program for existing local expansions. Two considerations were identified. First, why does there need to be a minimum number of jobs (5 currently) to comply. Small businesses that are just reaching stabilization most often can benefit from resources and support services to make them stable and creating a specified number of jobs is a burden that is challenging to meet as the company is determining its optimal business model. This comment also relates to how to scale incentives on a per-job basis and not a specific job total. Second, stakeholders wondered if there should be different criteria for small or micro businesses compared to larger companies/corporations that are expanding. There were minimal comments on the minimum eligibility for Category 2 and 3 projects.

Community Benefits/Outcomes

The community benefits/outcomes metrics outreach meetings focused on the scoring criteria used to assess applications aimed at identifying community benefits that the companies provide currently and may provide through the program. The purpose of these meetings was to focus on how to better evaluate applications based on program goals (e.g., metrics for tracking compliance to eligibility). Specific topics assessed included Diversity, Equity, and Inclusion (DEI), neighborhood and cultural engagement, fostering economic inclusion, and sustainable business practices.

<u>Overall</u>

Overall, the feedback gained from the outreach interviews identified two major concerns. First, the lack of clarity/transparency for how the scoring of application is done was cited. The inability of applicants to see the scoring matrix and having to rely on the program policy language creates a large amount of ambiguity for potential applicants. This ambiguity is a major deterrent for applicants to consider the process. Providing the scoring matrix to applicants can help them understand whether they qualify and how they may be able to improve/change their practices to qualify.

Second, the scoring rubric and the questions used to assess scores are too subjective and lack defined metrics that can be scored at minimum but also tracked over time by compliance officials. The participants indicated that the use of the acceptable and excellent response approach is fine if there is a definable metric to provide a score of acceptable versus excellent.

A common sentiment among all meetings was for the scoring systems to better align with the desired goals of the incentive program. The measures often reflect other City initiatives, hence their inclusion, but there is not always a tie to how the incentive program is related and/or if a business can even comply (or should need to).

Specific Categories

The outreach interviews assessed specific scoring criteria for goal categories with the participants. Below are major findings from EPS's assessment of the comments to consider in program revisions.

- Talent Development and Hiring – The stakeholders see a significant value in tying the incentive program to talent development and targeted hiring efforts, so there is a clear nexus. However, they expressed confusion and concern over the lack of definition for how companies comply – either by meeting the metrics or by resources/programs to participate.
    - Specific definition improvements suggested were; greater definition for what qualifies as a career ladder, focus on education/career training that improves career ladder, better definition of what qualifies as an apprenticeship/internship, reduced barriers and requirements for apprenticeship/internship qualification (i.e., minimum pay), clear definition of what at the base level qualifies as employee benefits and health care provision, and flexibility for how applicants can prove their benefits and health care provision can comply.
    - Another common suggestion was for the City to identify programs, resources, and organization that a company can work with to comply with criteria. This suggestion fits with a larger recommendation that the City should be creating the framework for how applicants can participate in existing efforts instead of putting the burden on the applicant to figure out how to comply.

- DEI – The stakeholders saw value in this category and had suggestions for how to better align scoring with other efforts and valuable responses from employers. The stakeholders suggested that the program DEI definitions match the citywide definitions produced by the Equity Office. Another significant suggestion was that the definition of participation in DEI programs needs to be different for small businesses and large corporations. Many of the eligibility criteria are too onerous for any small business to meet and/or track.

- Sustainable Business Practices – The stakeholders felt that the set of measures were largely on track to what the City should be seeking. The comments were largely around refinements to the scoring criteria and what is considered an acceptable versus excellent response.

Bonus Qualifiers

Comments that were provided specific to the bonus qualifiers in the scoring system included:

- Simplify and update the target industry definitions.
- Align small business definitions with the Federal Small Business Administration definitions.
- Update the location criteria.
- Simplify or remove qualifiers that are too vague or hard to define (e.g., public art use, local music and arts support, and day care).

Economic and Financial Analysis

The City of Austin has only entered into four agreements under the current Business Expansion Program since 2018. Three agreements were completed prior to the start of this analysis and one additional agreement was finalized during the process. The three existing agreements have all been terminated due to the inability of companies to comply with the minimum program requirements. This is due primarily to the increase in the City's living wage. The City's living wage in 2018 was $15.00 and has increased to $20.80 currently. This increase, which occurred in two adjustments, was too large for the companies to continue to comply with.

The three agreements analyzed had a total average size of $46,773 in incentives provided by the City. The agreements were for the creation of 56 total jobs. The average incentive per job created was $2,500. This level of incentive is below that economic benefit generated by the job and the City (fiscally). These total incentive deals are low in terms of the amount of incentive provided and had to be terminated due to lack of compliance. The low participation rate and the low level of incentive per job is an indication of why there was so little participation in the program.

Program Gaps Identification

The following gaps were identified through the best practices research, outreach, and program evaluation.

Program Objectives

The review of the peer city programs and assessment of the program by EPS identified that Austin's program objectives are too broadly defined and applicable. The stakeholder outreach confirmed this lack of focus. A direct connection between the objective of each program category and the desired outcome is needed. Peer cities that have similarly broad objectives take a much looser approach to eligibility and are more focused on generating economic opportunity. Lastly, the criteria for eligibility and for scoring need to be focused on the objectives and outcomes of each program category.

An example of the contradiction between broad objectives and yet very specific and strict eligibility is the small business incentives. One of the stated goals of the overall program is to reduce regulatory barriers. However, the program criteria place a huge administrative and regulatory barrier on businesses to participate. This is counterproductive to the goal stated for the program. This is especially impactful on small and/or disadvantage businesses.

Small Business

Many of the compliance requirements and community benefits that are desired through the program are oriented towards partnerships with large businesses. If the Business Expansion Program is desired to be used for small and disadvantaged businesses the process, requirements, and metrics all need to be substantially simplified. Supporting small and disadvantaged businesses is a goal and a worthwhile investment. The program shouldn't then also place major burdens on these businesses to participate. The administrative burden of providing and proving to the city complies with all the various ordnances is a deterrent to participation. Small business often do not have the capacity to have corporate policies in place (e.g. DEI strategy, sustainable business practice plan) or a need for them. It is overly burdensome to make them prove this. The design of who the program is targeting should already identify the types of businesses that are worthy of supporting and be based on its simple perimeters.

Target Industry Focus

The City of Austin's program lacks a significant connection to target industries. Many peer cities have a set list of target industries that their incentive policies relate to and in some instances the incentives are directly designed for specific target industries. The external relocation program category is a prime example of the lack of connection. The City should prioritize incentives to their target industries due to the greater economic benefit that these target industries produce. There should be greater scoring emphasis on target industries and/or lower eligibility and community benefit requirements.

Incentive Amount

The amount of incentive that can be awarded in agreements is lower in Austin than in peer cities. This is especially true for wage reimbursement incentives. Peer cities offer as much as 4-to-5-times greater incentives per job in wage reimbursement. Also, the level of property tax abatement/reimbursement can be lower due to what portion of the City's property tax is included and the percentage of property tax that can be accessed. Austin does not include the debt service portion of the property tax in the incentive program and also caps that total incentive amount of 50% of tax requirement annually. Other cities do not limit the portion of city tax included and offer greater percentages of tax that can be awarded. Cumulatively, the lower incentive amounts make Austin less competitive regionally and nationally. The lower incentive also hampers the ability to generate community benefits through agreements.

Award Potential and Eligibility Clarity

The lack of clarity on the amount of incentive that can be awarded and how to be eligible for the full amount through the scoring rubric deters participation in the program. A company's cost-benefit analysis cannot be completed to gauge the benefit of exploring the incentive program. More clarity and transparency can increase participation and interest.

Program Revision Recommendations

The recommendations for revisions to the Business Incentive Program are provided below and separated by program structure recommendations and program scoring recommendations.

Program Structure Recommendations

Specific recommended changes to the Business Incentive Program structure are provided below.

Distinct Program Categories

The City of Austin should consider the creation of three district program categories within the overall program. The overall program should provide values and priority goals for the three distinct programs. Revisions need to be made to the values and priority goals to clearly tie to the focus of each of the distinct categories. The three categories should be Business Relocations and Expansions, Targeted Hiring, and Small Business Expansions and Relocations. For each program category, a unique set of minimum requirements should be provided. For all three categories, most of the existing minimum requirements should remain with some modifications. Specifically, adjustments to the living wage requirement and modification of the inducement/"But For" requirements for small businesses are suggested. Specific recommendations and rationale for each category are provided below.

1a. *Business Relocations and Expansions*

This category is focused on businesses seeking to locate in Austin or expand operations. This category is more like the existing Category 3 but inclusive of existing business expansions. There should be a direct tie or priority given to businesses within the City's target industries. The purpose of this category is to seek to incentivize community benefits being created through supporting the expansion of businesses or attracting businesses to Austin. The existing approach to enhanced incentives through greater community benefits fits this category but the scoring rubric and benefit categories should be refined to benefits that can be achieved through incentives and by the companies applying.

1b. *Target Hiring – The existing Category 2 program requirements and criteria should remain with some modifications including:*

Achieving targeted hiring is the desired outcomes of this program and placing greater burdens to prove or provide community benefits should only be done for enhanced incentive amounts. A minimum, well defined compliance/eligibility criteria should be set that is tied to a specific incentive amount. Increased incentive can be gained through greater community benefits.

- » Directly tying existing workforce development programs to eligibility and/or scoring requirements.
- » Provide more focus to the types of occupations and/industries where targeted hiring has the greatest benefit for the companies and residents.
- » Proactively soliciting participation in this category in concert with other efforts and workforce grants.
- » Considering increasing the per job incentive amount to entice participation.
- » This program is likely to be more successful in partnership with larger businesses (greater than 500 employees), so consideration of criteria should focus on attributes and capabilities of larger businesses.

1c. Small Business Expansions and Relocations

A category specific to small businesses should be created with tailored requirements and scoring for small business realities. The definition of a Small Business should follow the U.S. Small Business Administration definitions (and any applicable State of Texas definitions) to simplify compliance. The City can choose to create sub-tiers of definitions to address businesses smaller than 250 employees and/or micro-businesses. The inducement requirement for this program should be reconsidered and a traditional “but for” requirement may not be required given the goal of supporting small business.

The minimum eligibility requirements should give more flexibility for compliance with living wage requirements, with only a focus on new jobs created and greater flexibility on what can be included in terms of wage (e.g., tips, benefits, shifts preferences), and with health care benefit provision, with realization that alternative approaches to support health care benefits are likely more common and that businesses under 50 employees may not have to provide health care. The eligibility criteria should be simplified and tailored to realistic thresholds for small businesses. A much simpler and clear incentive amount and scoring approach should be provided with a basic, binary approach to meeting scoring criteria.

1d. Living Wage Requirement

The current approach to applying the living wage standard for all agreement provides too much uncertainty for businesses to be able to fully comply with. Wage levels and benefits are driven by the needs of specific businesses and industries. The current approach of pegging the City of Austin’s (a municipal government) minimum wage standard to private industry doesn’t make sense. The lack of clarity on how and if the living wage will change is also too difficult for companies to comply with. The living wage requirement is the primary reason that agreements executed since 2018 failed. The City should set a more transparent and predictable wage level approach for the program. Suggestions include setting a specific wage that applies for the length of the agreement, increasing the living wage level based on the consumer price index, and allowing for a compliance period for companies to ramp up to new wage levels.

Program Scoring/Compliance Recommendations

The program scoring approach and related compliance need is too onerous and complicated. The number of benefits included is too many and the related scoring criteria too vague to elicit meaningful responses from applicants and to prove compliance once agreements are finalized. The scoring system should be simplified and made transparent to applicants. Specific recommendations identified through stakeholder outreach include:

1. Make the scoring criteria questions more binary to solicit yes or no compliance responses.
2. Reduce the number of community benefits that are trying to be achieved through the program to benefits that are tied to business expansions and or the use of incentives by the company.
3. Consider moving away from a 0 to 100 scoring systems and base eligibility and enhanced incentives on the number of criteria that receive an acceptable and/or excellent response (using the current score methodology). For example, projects need to achieve 5 "Acceptable" scores to be eligible for a base incentive level. Enhanced incentives can be provided based on the number of "Excellent" scores achieved.
4. Make scoring rubric available to applicants for them to better comply with standards and assess the value of pursuing incentives.