



Business Incentives and Economic Development Expenditures: An Overview of Alabama’s Program Investments and Outcomes

Summary

Across the country, state economic development incentives have evolved into a complex mixture of programs with diverse structures and goals. The Council for Community and Economic Research (C2ER) and the Center for Regional Economic Competitiveness (CREC) have been working to catalog and document the range of available state programs through the [C2ER State Business Incentives Database](#), which includes detailed information about almost 2,000 state-administered incentive programs from every state; and the [C2ER State Economic Development Expenditures Database](#), a compilation of economic development expenditure budget data from every state. This report builds on that work by taking a deeper look at Alabama’s full array of incentive programs and includes an analysis of the available outcome data that is used by state policymakers and program administrators to gauge program effectiveness.

In order to create a comprehensive picture of the economic development landscape, we reviewed and culled data from a range of state statutes, reports, and websites. The numbers contained in this report are CREC and C2ER’s best estimate of the dollars spent on economic development incentives at the state level in Alabama.

In Fiscal year (FY) 2014, the most recent year spending data are available for all program types, Alabama spent \$86 million on economic development programs.¹

Overview of Business Incentives

Alabama manages a moderate number of business incentive programs, with a total of 30 active programs in 2015. The C2ER State Business Incentives Database defines state business incentives as state-administered programs designed to influence business investment behaviors. States design their programs to influence these behaviors through tax incentives as well as through non-tax programs such as grants, loans, business assistance, and other investment vehicles. These incentives help businesses

[The Center for Regional Economic Competitiveness \(CREC\)](#) is working with The Pew Charitable Trusts (Pew) on the Business Incentives Initiative. This initiative engages forward-thinking teams of economic development policymakers and practitioners from six states. These leaders are working together to identify effective ways to manage and assess economic development incentive policies and practices, improve data collection and reporting on incentive investments, and develop national standards. The initiative is supported by a grant from the Laura and John Arnold Foundation.

¹ Please see Appendices for detailed lists of all items included in this report as incentives, economic development program expenditures, and economic development tax expenditures.



Figure 1: Alabama State Business Incentives by Agency, 2015

State Agency	Number of Programs
Alabama Department of Revenue	14
Alabama Department of Economic and Community Affairs	6
Alabama Department of Commerce	3
Alabama Development Office	2
Alabama Department of Education	1
Alabama Film Office	1
Alabama Industrial Development Authority	1
Alabama Industrial Development Training Institute	1
Alabama State Treasury	1

Source: C2ER State Business Incentives Database

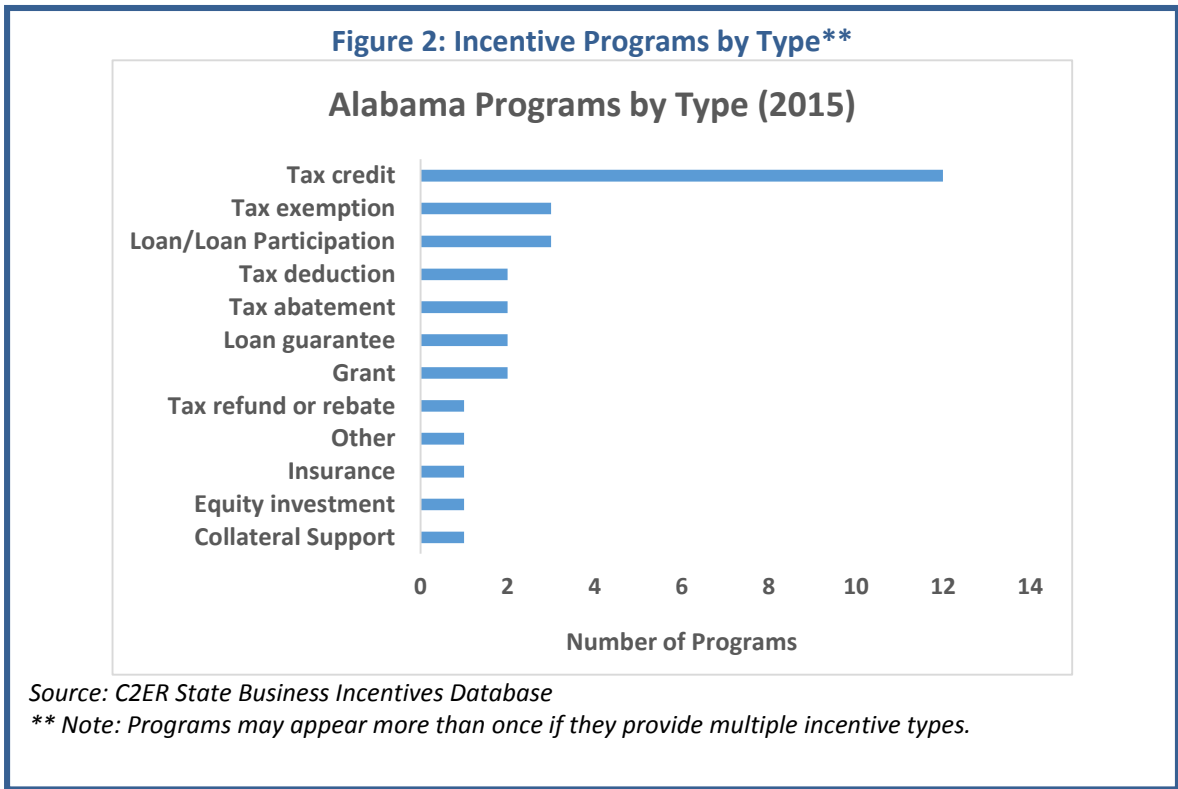
address one or more needs, such as capital access, workforce preparation, technology transfer, site facility improvements, and so forth.²

Alabama incentives programs are currently administered by nine different state agencies. The Alabama Department of Revenue administers the most incentive programs (See Figure 1.) The Department of Revenue's dominant role in Alabama's incentives is unlike most states where economic development-focused departments manage most incentives. However, the Alabama Department of Economic and Community Affairs and the Alabama Department of Commerce, manage a substantial but smaller number of programs.

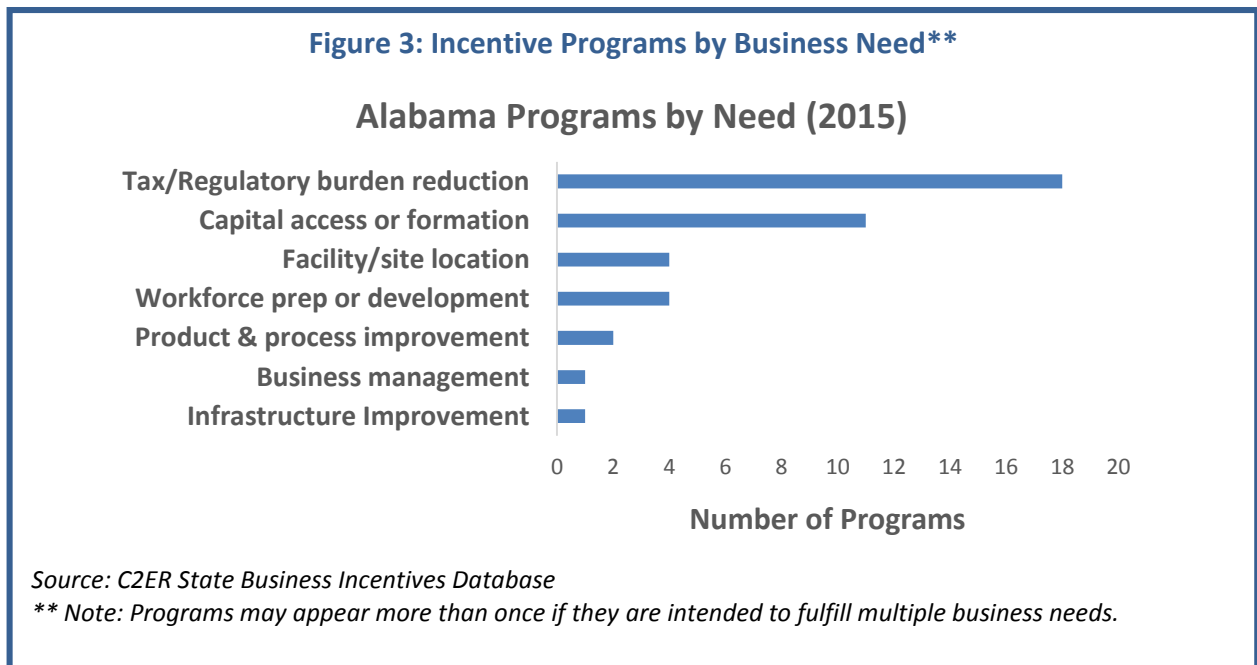
In order to help stimulate more economic growth from agencies beyond the Department of Revenue, Alabama is consolidating divisions and councils for economic development into the Department of Commerce (DOC). Commerce Secretary Greg Canfield launched a Workforce Development Division within DOC in July 2015. The Workforce Investment and Workforce Development divisions of the Department of Economic and Community Affairs and the state's ten workforce development councils will also become part of DOC's Workforce Development Division. In 2015, DOC also gained two new incentives programs to encourage job creation: the Alabama Jobs Act and the Alabama Veterans and Targeted Counties Act. The realignment is just one of the proposals suggested by the Alabama Workforce Council in February 2015 to better connect business and industry and create high-wage jobs. A key focus of the Alabama Workforce Council is to bring more advanced manufacturing jobs to the state and encourage private companies to partner with local community colleges.

More than half (65 percent) of Alabama's active incentive programs offer some kind of tax-related benefit. By comparison, tax incentives represent 45 percent of all state business incentive programs

² The C2ER State Business Incentives Database [definition of business incentives](#) may differ from the definition used by the state of Alabama. For a current list of incentive programs as defined by the state, please see [the Alabama Department of Revenue](#) website.



across the nation. About one-fifth (19 percent) of Alabama’s incentive programs provide direct business financing, while about 15 percent offer indirect business financing (See Figure 2.) While most of





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Alabama’s programs are tax incentives, some newly funded non-tax programs to promote economic growth have been developed. The AlabamaSAVES and Alabama Innovation Fund started in 2012 to help increase energy efficiency and the development of new technology. Compared to most other states, Alabama has a low number of loan and grant programs. Nearly three-quarters of Alabama’s current portfolio of incentives is on tax burden reduction and capital access formation, with a smaller number of programs addressing other forms of business assistance, such as facility location and workforce development (See Figure 3.)

In 2013 and 2014, the DOC conducted a full-scale evaluation of the state's incentives structure, which entailed looking at other states' programs and comparing them to Alabama's. Commerce Department Secretary Greg Canfield noted that the state needed to take a more sustainable approach to their incentives strategy.³ He also stated that one goal is to fund incentives with revenue created by job growth, while another is to become more flexible with incentives, to accommodate projects that may be relatively light in capital investment but heavy in jobs.

Economic Development Program Expenditures

Examining Alabama’s budget for economic development program expenditures reveals how various state agencies outlay money for economic development programs. Expenditures fall into 15 functional areas for economic development defined by the C2ER State Economic Development Expenditures Database.⁴

According to Alabama’s [FY 2016 Executive Budget](#), which details actual FY 2014 spending, the state spent nearly \$86 million⁵ on economic development in FY 2014. This level of spending represents an average of \$726 per business, which is moderately lower than the median average of \$877 per business spent in other states for that fiscal year. Just over two-thirds of Alabama’s economic development expenditures went to the Department of Commerce, with the remainder going to the Alabama Tourism Department, Alabama Department of Economic and Community Affairs, Department of Agriculture and Industries, and the Industrial Development Authority.

State Economic Development Expenditures Function Areas

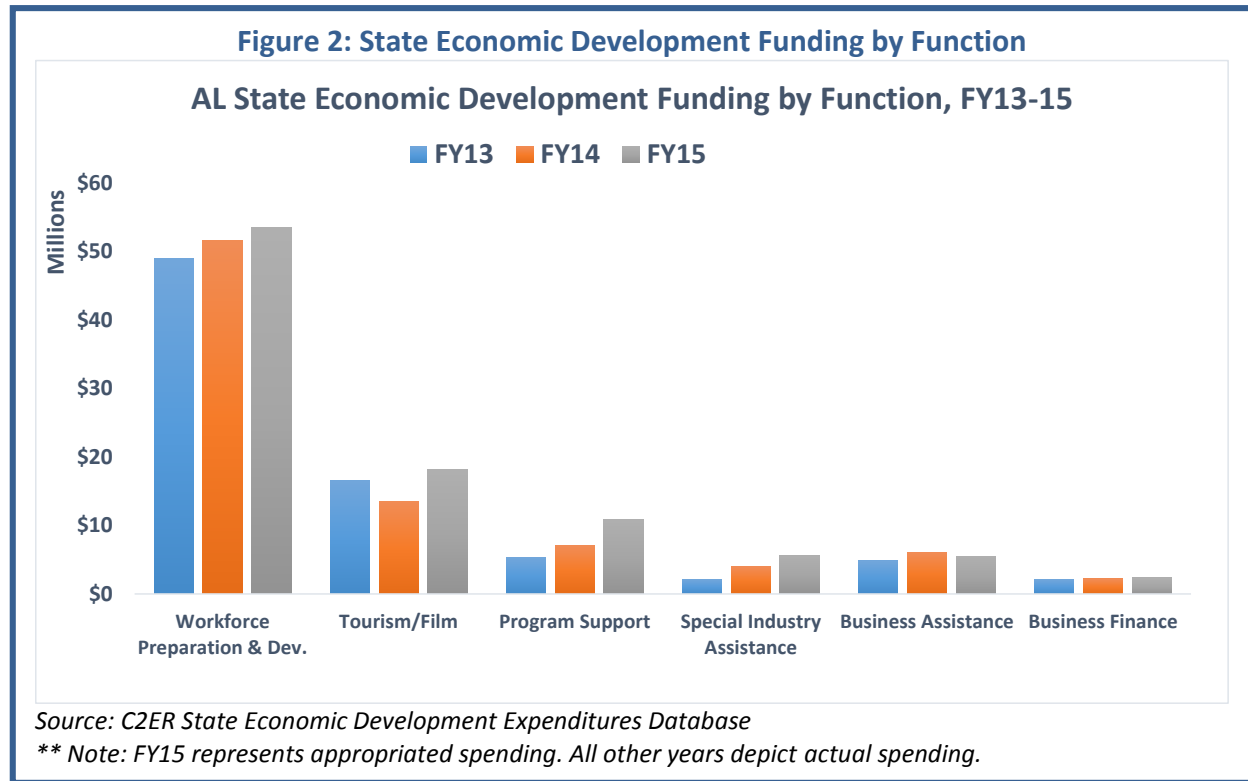
- Business Finance
- Strategic Business Attraction Fund
- Business Assistance
- International Trade and Investment
- Domestic Recruitment/Out-of-State
- Workforce Preparation & Development
- Technology Transfer
- Entrepreneurial Development
- Minority business development
- Community Assistance
- Tourism/Film
- Special Industry Assistance
- Program Support
- Administration
- Other Program Areas

³ “Alabama looks to revamp economic development incentives as state faces increasing competition for new jobs, investment”, Dawn Kent Azok, March 17, 2014.

http://www.al.com/business/index.ssf/2014/03/alabamas_economic_development_1.html

⁴ See Glossary definitions here - http://www.stateexpenditures.org/about/Definition_of_ED_Functions.pdf

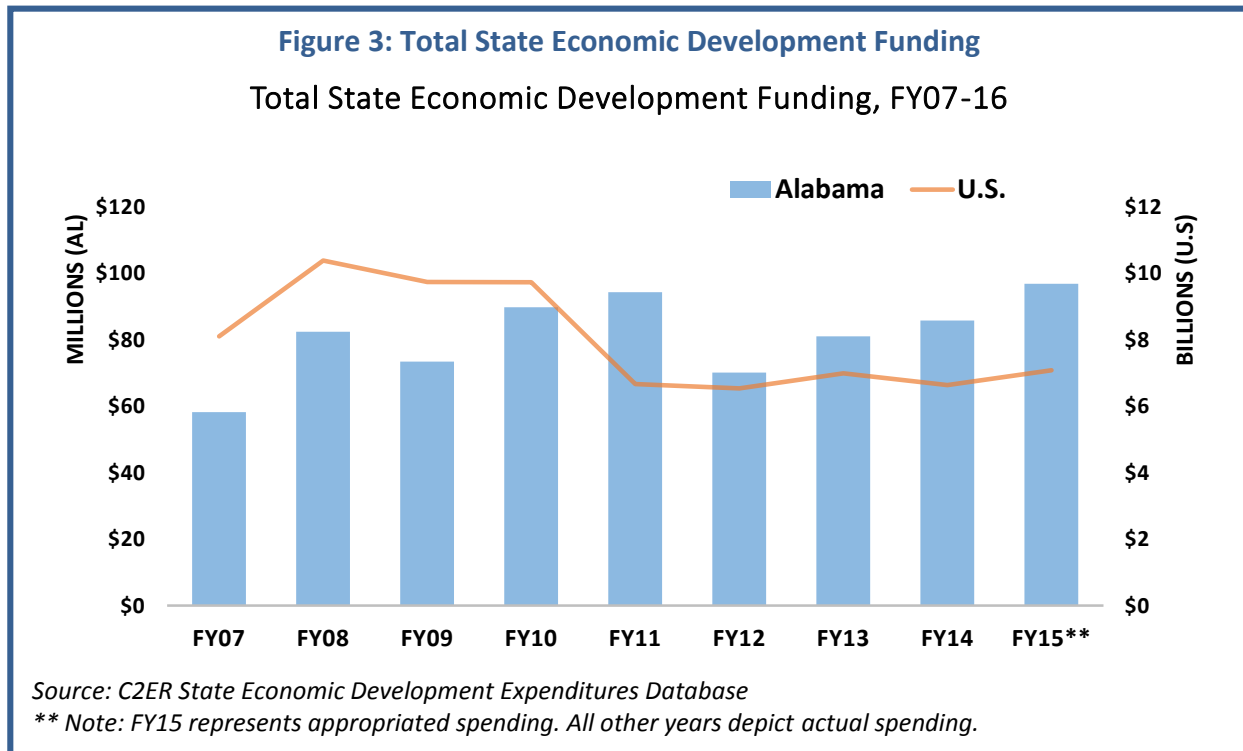
⁵ This total excludes all federal and local economic development expenditures.



In comparison to economic development expenditures nationally, in FY 2014 Alabama spent a significantly greater share of its budget (relative to other states) on programs related to workforce preparation and development, and a lower share on programs related to special industry assistance, business finance, and business assistance (See Figure 4.)

Between FY 2007 and FY 2008, economic development spending increased 41% in Alabama, from \$58 million in FY 2007 to \$82 million in FY 2008. This substantial increase was mainly due to a large \$22 million conditional release of funds from the Education Trust Fund to the Industrial Development Training Institute—an independent agency under the supervision of the Secretary of Commerce (formerly a division of the Department of Postsecondary Education) which encourages economic development through job-specific training services that are offered to new and expanding businesses throughout the State.

Economic development program expenditures decreased to their lowest point in FY 2012, with large drops in spending on program support, workforce preparation, and tourism/film. After this funding trough, spending increased consistently and modestly year-over-year to actual expenditures of \$86 million in FY 2014—representing a 47 percent increase in funding from FY 2007. This is fairly consistent with national trends in economic development spending, as most states decreased spending in FY 2011 following the Great Recession and have since made gradual spending increases (See Figure 5.) Economic development expenditures continued to trend modestly upward in FY 2015 and FY 2016.



Economic Development Tax Expenditures

Tax expenditures can be defined as “revenue losses attributable to tax provisions that often result from the use of the tax system to promote social goals without incurring direct expenditures.”⁶ *Economic development tax expenditures* in this context represent those tax provisions that use the state tax system to promote business investments that promote state economic priorities.

Alabama is one of the few states that does not produce a regular tax expenditures report. The Alabama Department of Revenue’s Tax Policy and Research Division does produce annual revenue estimates, as well as an annual summary of tax incentives, but the summary includes no spending totals. However, the Alabama Legislature passed a bill, SB 119, in May 2015 that would require the Legislative Fiscal Office to produce an annual “tax expenditure” report.

According to Alabama’s FY 2016 Executive Budget, FY 2014 revenues from the Oil and Gas Production Tax and the Sales and Use Tax each accounted for 5 percent of the total revenues feeding into the state’s general fund, with 4 percent of total receipts coming from the corporation tax. In looking at the state’s education trust fund, income tax accounted for 60% of total receipts for FY 2014, while sales and use taxes collectively accounted for 32% of total receipts.

⁶ *Tax Expenditures: What are they and how are they structured?* Tax Policy Center. Accessed November 25, 2014 at: www.taxpolicycenter.org/briefing-book/background/shelters/expenditures.cfm



Analysis of Available Outcome Data

According to the Pew Center on the States, Alabama was one of 16 states that did not publish a document between 2007 and 2011 which evaluated the effectiveness of tax incentives.⁷

In 2012 and 2013, Alabama offered more than \$131 million in discretionary incentives to new and expanding companies, according to data provided by the state Department of Commerce.⁸ The projects that were the focus of the incentives in these two years promised a capital investment topping \$3.5 billion, more than 11,000 direct jobs, and a 10-year payroll of \$4.8 billion, the department's data show. Also, the projects were expected to create 27,700 indirect jobs, and produce \$876 million in total state revenues from education property taxes, construction payroll taxes and various other levies.

Alabama maintains a comprehensive transparency website, Open.Alabama.gov. This website is updated daily and contains information and reports on state spending, state properties, and government leaders' expenses. Analysis of Alabama's spending outcomes is provided by monthly comparative summaries of revenues, which take the form of a detailed line-item budget that lists each revenue source. The website attempts to account for all state government spending and the different recipients of government funding is searchable by category, payee, and agency. Monthly reports of spending on each category can also be found on the site.

The Alabama Consolidated Comprehensive Economic Development Strategy (CEDS) of the Alabama Association of Regional Councils creates an annual comprehensive economic strategy. Twelve regional councils set up by the state help design and implement CEDS's goals. The regional councils also evaluate and assess the success of the CEDS.

The state continues to pursue its Accelerate Alabama initiative, the strategic economic development growth plan adopted by Governor Bentley in 2012. Accelerate Alabama identifies 11 industry clusters whose growth prospects make them ripe for recruitment. Targeting Accelerate Alabama's sectors provides the state's economic development agencies with a strategic framework and a sharpened focus as they work to identify and pursue prospects.

Conclusion

Alabama currently administers a moderate number of incentives, with an emphasis on tax over non-tax incentives. The state's economic development program spending per business establishment is also somewhat low, although spending has been modestly increasing since FY 2012. Earlier this year, Alabama adopted a new incentives platform that, for the first time, included an incentive specifically tied to job creation. The job-creation target to qualify for incentives is fifty (50) jobs. In order to stimulate investment in rural areas, Alabama has lowered the number to twenty-five (25) jobs for projects in counties with populations below 25,000.

⁷ "Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth", The Pew Charitable Trusts, April 2012.

⁸ "Alabama looks to revamp economic development incentives as state faces increasing competition for new jobs, investment", Dawn Kent Azok, March 17, 2014, http://www.al.com/business/index.ssf/2014/03/alabamas_economic_development_1.html



Appendix A: Full List of Alabama State Business Incentives (2015)

Program Name	Program Provider	Business need	Type
Enterprise Zone Program	Alabama Department of Economic and Community Affairs	Product & process improvement; Tax/Regulatory burden reduction	Tax credit
Income Tax Capital Credit	Alabama Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Property Tax and Sales Tax Abatements	Alabama Department of Revenue	Capital access or formation; Tax/Regulatory burden reduction	Tax abatement
Income Tax Education Credit	Alabama Department of Education	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Pollution Control Equipment Tax Deduction	Alabama Department of Revenue	Tax/Regulatory burden reduction; Product & process improvement	Tax deduction
Air Carrier Hub Operation Equipment Business Privilege Tax Deduction	Alabama Department of Revenue	Business management; Tax/Regulatory burden reduction	Tax deduction
Industrial Development Grant Program (Site Preparation)	Alabama Industrial Development Authority	Facility/site location	Grant
Alabama Industrial Access Road and Bridge Program	Alabama Development Office	Infrastructure Improvement	Grant
Industrial Development Training Program	Alabama Industrial Development Training Institute	Workforce prep or development	Other
Inventory Tax Exemption	Alabama Department of Revenue	Capital access or formation; Tax/Regulatory burden reduction	Tax exemption
Linked Deposits Program for Emergency Borrowers	Alabama State Treasury	Capital access or formation	Loan guarantee
Brownfield Development Tax Abatements	Alabama Department of Revenue	Facility/site location	Tax abatement
State Docks Capital Credit	Alabama Department of Revenue	Capital access or formation	Tax credit
Certified Capital Company Program (CAPCO)	Alabama Development Office	Capital access or formation	Collateral Support
Full Employment Act of 2011	Alabama Department of Revenue	Tax/Regulatory burden reduction	Tax credit



Made in Alabama Job Incentives Act	Alabama Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Capital Access Program (CAP)	Alabama Department of Economic and Community Affairs	Capital access or formation	Insurance
Alabama Loan Guarantee Program	Alabama Department of Economic and Community Affairs	Capital access or formation	Loan guarantee
Alabama Loan Participation Program	Alabama Department of Economic and Community Affairs	Capital access or formation	Loan/Loan Participation
Heroes for Hire Income Tax Credit	Alabama Department of Revenue	Tax/Regulatory burden reduction	Tax credit
AlabamaSAVES (Sustainable and Verifiable Energy Savings) Loan Program	Alabama Department of Economic and Community Affairs	Capital access or formation	Loan/Loan Participation
Entertainment Industry Incentive	Alabama Film Office	Tax/Regulatory burden reduction	Tax refund or rebate; Tax exemption
Coal Production Tax Credit	Alabama Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Alabama Innovation Fund	Alabama Department of Commerce	Capital access or formation	Equity investment
Economic Development Revolving Loan Funds	Alabama Department of Economic and Community Affairs	Capital access or formation	Loan/Loan Participation
Sales and Use Tax Incentives	Alabama Department of Revenue	Tax/Regulatory burden reduction	Tax exemption
New Markets Tax Credit	Alabama Department of Revenue	Tax/Regulatory burden reduction	Tax credit
Municipal Business License Abatement	Alabama Department of Revenue	Tax/Regulatory burden reduction; Business management	Tax credit
Alabama Jobs Act	Alabama Department of Commerce	Workforce prep or development; Tax/Regulatory burden reduction	Tax credit
Alabama Veterans and Targeted Counties Act	Alabama Department of Commerce	Facility/site location; Tax/Regulatory burden reduction; Workforce prep or development	Tax credit



Appendix B: AL Economic Development Program Expenditures (2014)

Function	Activity	Agency	Program	Total State Funding
Administration	Info systems, accounting, human resources, etc.	Alabama Department of Economic and Community Affairs	Administrative Support Services Program	\$1,199,881
Business Assistance	Business retention/expansion	Department of Commerce	Industrial Development Program	\$6,092,545
Business Finance	Grants to businesses	Industrial Development Authority	Industrial Development Program	\$2,000,000
Business Finance	Other Business Finance	Industrial Development Authority	Industrial Development Program	\$245,916
Program Support	Policy and planning	Alabama Department of Economic and Community Affairs	Planning Program	\$7,073,912
Special Industry Assistance	Agriculture/agribusiness	Department of Agriculture and Industries	Agricultural Development Service Program	\$4,038,264
Tourism/Film	Tourism development	Alabama Tourism Department	Tourism and Travel Promotion Program	\$13,560,749
Workforce Preparation & Development	Customized training	Department of Commerce	Industrial Training Program	\$51,617,377
Grand Total				\$85,828,644