

Boosting State Economies

Six legislative leaders talked with State Legislatures about efforts to improve the economy and spur job growth in their states.

BY SUZANNE WEISS

From business tax cuts, credits and other incentives, to new job training initiatives and bond-financed construction projects, legislators are pursuing aggressive strategies to stimulate sluggish economies.

Washington

One of the more ambitious undertakings is a billion-dollar supplemental capital budget bill Washington lawmakers passed this spring with strong support from both parties.

The initiative is projected to create more than 25,000 jobs during the next several years by using debt financing at a time when construction costs and bond rates are low to accelerate public works projects already planned and ready to go.

As part of the deal, the Legislature also approved a constitutional amendment for the November ballot to gradually lower the state's debt limit. Major items in the package include \$320 million to build or expand health, science and technology centers at a dozen community colleges and universities; \$216 million for natural resource projects such as flood control, fish hatcheries and toxic-waste cleanup; and more than \$250 million for housing, safe drinking water and energy-efficiency programs.

"As an economist, it's been rewarding to see all of us—legislators, the governor, the private sector—get on the same page in support of more coordinated, regionally based economic development strategies," says Washington Senate Majority Leader Lisa Brown (D). "We're not just chasing dollars."

Connecticut

During the past two sessions, the Connecticut General Assembly approved a billion-dollar package of bills to stimulate the economy with overwhelming bipartisan support. Projects include \$291 million in state-backed bonds for Jackson Laboratory to build a large research facility focused on genomic medicine at the University of Connecticut Health Center. Governor Daniel Malloy promoted the idea as a way to make Connecticut a national leader in the field of bioscience. The research facility will eventually employ 1,000 people.

"The governor's office had ideas, the legislature had ideas on both sides of the aisle—and all the things we agreed on, we put in the bipartisan jobs bill," says Connecticut Speaker of the House Christopher Donovan (D).

The Connecticut stimulus package also includes an additional \$700 million in bonds for small-business loans and grants, cleanup and redevelopment of industrial brownfield sites, bridge repairs, community college job training programs, and a Main Street Investment Fund to refurbish com-

mercial centers in small towns.

To make it easier for business, Connecticut legislators also streamlined the process for obtaining certain business permits and created a new e-business portal.

"In the midst of the recession, we knew we had a responsibility to develop ideas to help businesses grow," says Donovan.

Tennessee

In the past two years, a number of states have approved tax breaks coupled with regulatory reforms as a way to create a more business-friendly environment.

"We're focused on getting out of the way of the private sector and helping small businesses create jobs," says Tennessee Speaker of the House Beth Harwell (R).

This year, Tennessee lawmakers passed bills eliminating the gift tax, phasing out the inheritance tax by 2016, and cutting red tape for businesses seeking permits and licenses. Legislators also created a program that will provide new and expanding businesses with \$80 million in direct cash grants to cover infrastructure improvements and job training.

Michigan

The Michigan Legislature in 2011 eliminated the state business tax, which legislative leaders described as "onerous" and "punitive." Lawmakers replaced the lost revenue with a flat 6 percent income tax on traditional C corporations, while S corporations will pay a 4.35 percent tax on profits under the individual income tax.

"Our strategy has been to steer away from recruiting new companies from outside the state," says Michigan Senate Majority Leader Randy Richardville (R).

"Instead, we emphasized making the business climate better here in Michigan—economic gardening vs. economic poaching."

The Michigan Legislature also passed legislation to phase out the personal property tax for industrial properties with exemptions for small commercial properties.

Arizona

Arizona lawmakers approved a four-year, gradual reduction of the state's corporate income tax, from 6.9 percent to 4.9 percent, beginning in January 2014. Other major elements in what became known as the Arizona Competitiveness Package included corporate tax credits of up to \$9,000 for creating new jobs; a 10 percent increase in the state's research and development tax credit; a 5 percent acceleration of the depreciation schedule for businesses' personal property; and increased funding for a grant program that supports customized training by employers creating new jobs, improving workers' skills or increasing the wages of current employees.

Arizona recently joined about 20 states that have invested in deal-clos-

A Look at Tax Incentives

States regularly rely on tax incentives as an economic development tool to spur job growth. While 13 states do a good job evaluating how effective ly they are achieving their goals, half the states do very little, according to a recent report by the Pew Center on the States.

“Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth,” examines the quality and scope of states’ evaluations of tax incentives, based on the belief that an effective assessment occurs regularly and relies on high-quality data to measure the incentives’ economic results. The report’s authors also suggest that more deliberation should occur on the potential effect of tax incentives before they are offered.

“Policymakers should know whether these tools deliver a strong return on their investment,” says Jeff Chapman, senior researcher at the Pew Center on the States. “Regular, rigorous and comprehensive evaluations of tax incentives are critical to their ability to do so.”

The report identifies 13 states that led the way in measuring the effectiveness of tax incentives: Arizona, Arkansas, Connecticut, Iowa, Kansas, Louisiana, Minnesota, Missouri, New Jersey, North Carolina, Oregon, Washington and Wisconsin, with 12 more having mixed results.

—Aron Snyder

ing funds, an all-inclusive term for economic development tools used to persuade businesses to locate to or expand in a state.

Businesses typically are not required to repay these funds, which have a wide range of eligible uses—from plant and machinery costs to utilities and transportation expenses to various other infrastructure projects.

Lawmakers also created the Arizona Commerce Authority and allocated \$25 million to kick off its recruitment and retention efforts. Lawmakers are optimistic.

“Things are getting better—our revenues are up 18 percent over a year ago,” says Arizona Senate President Steve Pierce (R). “But we have a lot of debt, and we need to begin putting money back into education, public safety and other budgets that have been cut over the past several years.”

Arkansas

Legislators reauthorized the governor’s \$100 million deal-closing fund, established in 2007. The fund is credited with luring \$766 million in new business investment to Arkansas, creating nearly 6,500 jobs with an average hourly wage of \$20.

Among the large businesses that have taken advantage of grants and other incentives are LM Glasfiber (fiberglass blades for wind turbines), Daasault/Falcon (aircraft), Welspun (pipe manufacturing), and Hewlett Packard, which recently opened a \$28-million customer service and technical support center that will employ more than 1,000 people.

Arkansas lawmakers also created new sales, use and income tax credits for small businesses in economically distressed areas of the state that are trying to expand—with an emphasis on supporting tourism enterprises and revitalizing town centers.

“Arkansas is edging its way into a more productive period,” says Arkansas Speaker of the House Robert S. Moore Jr. (D).

“We weathered the economic downturn without laying off teachers and state employees. We’ve managed to maintain an attractive environment for business. And we are one of the few states that ended the fiscal year with resources to take on some capital improvement projects,” he says.

Washington Senate Majority Leader Lisa Brown (D)



“It’s been rewarding to see all of us support a more coordinated, regionally based economic development strategy.”

Brown has served 20 years in the Washington Legislature—two terms in the House and four terms in the Senate, where she has been majority leader since 2005. An associate professor in the organizational leadership program at Gonzaga University, Brown recently announced that she would not run for re-election this fall.

Connecticut Speaker of the House Christopher Donovan (D)



“We knew we had a responsibility to develop ideas to help businesses grow.”

First elected to the Connecticut House of Representatives in 1992, Donovan has served two terms as majority leader and two years as speaker. He is running for the Democratic nomination for the congressional seat being vacated by U.S. Senate hopeful Christopher Murphy. Donovan teaches political science and sociology at the University of Hartford.

Tennessee Speaker of the House Beth Harwell (R)



“We’re focused on getting out of the way of the private sector and helping small businesses create jobs.”

Harwell, who is in her 12th term in the House of Representatives, was chosen speaker in January 2011. She served as chair of the state Republican Party from 2001 to 2004 and has been an assistant professor of political science at Belmont University.

Michigan Senate Majority Leader Randy Richardville (R)



“We put the emphasis on making the business climate better—economic gardening vs. economic poaching.”

Richardville is in his second and final term in the Michigan Senate. He served six years in the House, where he was majority floor leader his final term. He is a former economic development director for the city of Monroe, and spent 20 years working for several Fortune 500 companies as a controller and global finance planner.

Arizona Senate President Steve Pierce (R)



“We need to begin putting money back into education, public safety and other budgets that have been cut over the past several years.”

Pierce, a third-generation Arizona cattle rancher, was elected to the Senate in 2008. He became majority whip the following year and in November 2011 was chosen Senate president.

Arkansas Speaker of the House Robert S. Moore Jr. (D)



“We are one of the few states that ended the fiscal year with resources to take on some capital improvement projects.”

Moore, in his third and final term in the House, has been speaker since January 2011. A retired farmer, he has served as an assistant attorney general, chairman of the state Transportation Commission, and director of the state’s Alcohol Beverage Control Board.