



# FACTS AT A GLANCE

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## Survey of State “Deal-Closing” Funds and Other Incentive Grant Programs for Job Creation

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Texas is one of seven states that have created a “deal-closing” fund financed by general tax revenue to persuade businesses to locate or expand in the state. An eighth state, Georgia, finances the Economic Development, Growth, and Expansion (EDGE) Fund with tobacco settlement funds. Two other states, Mississippi and West Virginia, propose to create a deal-closing fund financed by general obligation bonds and lottery proceeds, respectively. Generally, a deal-closing fund:

- is used when there is serious competition from another state
- is financed by state revenue appropriated by the legislature
- provides grants that are not required to be repaid
- has a wide range of eligible uses, including on-site (plant, machinery) costs and off-site infrastructure (utilities, transportation) projects
- can be awarded to businesses, local governments, or public institutions
- has statewide application

This report examines the funding, purpose, local participation, and special terms of state deal-closing funds and other state incentive grant programs that are used as economic development tools to create jobs. Note that the report does not include job training grants, which are offered by nearly every state and are the subject of a separate survey. (Please see the March 2003 Texas Legislative Council publication, *Survey of State-Funded Job Training for Employers*.) The report also does not include the following:

- tax incentives, including tax credits and tax rebates
- loans, including forgivable loans
- programs financed by federal funds (A number of states dedicate a portion of federal Community Development Block Grant funds to economic development infrastructure projects.)

# Summary of Survey Results

Full survey results are presented in the table, which provides the name of each state program, a contact phone number, and the program's annual funding level, revenue source, purpose, provisions for local participation, and special terms. The following is a summary of the survey results.

## Programs

- Twenty-five states appropriate state revenue for one or more types of business incentive grant. Eight of those states, including Texas, use a deal-closing fund.
- Florida has the highest number of incentive grant programs at three, and one of the programs is a deal-closing fund. Seven states offer two grant programs each. Texas and 13 other states offer one program. Four states propose new incentive grant programs. (These totals do not include job-training grants, which are offered by 47 states, including Texas.)

## Funding

- Most of the grant funds surveyed receive an annual appropriation of between \$10 million and \$20 million. If a fund provides loans as well as grants to create a repayment stream, it may be larger.
- Generally, small states have small annual appropriations for business incentive grants. An exception is Iowa, which has a \$26 million annual fund for transportation infrastructure financed by a set-aside of the state gasoline tax.
- At \$295 million, the Texas Enterprise Fund is the largest deal-closing fund in the nation. Created by the legislature in 2003, the fund is financed by general and special tax revenue in the state's Rainy Day Fund.
- Invest New Mexico is a private equity investment program funded by a percentage of the state severance tax on extraction of oil and gas. Current annual funds are \$220 million.
- Deal-closing funds in Florida and Maryland and an incentive grant program in North Carolina were not funded by the state legislature in 2004, but are expected to be restored in 2005. An incentive grant program in Louisiana will "sunset" on December 31, 2004, unless the legislature continues it.
- Several states, including California and Washington, have put incentive grant programs on hold indefinitely because of budget constraints. They are not included in this survey. (These states still have tax and loan incentive programs.)

## Revenue Source

- Seven of the eight deal-closing funds are financed by general tax revenue from the General Fund or, in the case of Texas, from the Rainy Day Fund. Georgia finances the \$15 million EDGE Fund with tobacco settlement funds. Mississippi and West Virginia propose using general obligation bonds and lottery proceeds to finance deal-closing funds.
- All of the transportation infrastructure incentive grants, except one, are financed by the state gasoline tax. Mississippi uses general obligation bonds to finance the \$12 million Economic Development Highway Fund.

- All of the public infrastructure (water, sewer, utilities, industrial parks, etc.) incentive grants are financed by general tax revenue. Missouri proposes to create a public infrastructure grant fund using tax revenue received from the elimination of tax credits.
- Alabama finances bonds for site preparation grants using cigarette tax revenue for repayment.

## **Purpose**

- Eight states, including Texas, offer deal-closing grants with a wide range of eligible uses, including public works projects, transportation infrastructure, site development, construction, machinery, and equipment.
- Four states offer both grants and loans from a single fund for industrial assistance.
- Three states offer grants exclusively for on-site (plant and equipment) costs.
- Six states offer grants exclusively for off-site public works projects that lead directly to job creation. Projects include water and sewer systems, utility extensions, and industrial parks. Generally, these grants cannot be used on privately owned land or for general purpose projects that lead only indirectly to job creation.
- Six states offer grants exclusively for transportation infrastructure, including access roads, rail connections, and highway improvements.
- Three states offer companies an annual incentive grant equal to up to five percent of the payroll for all new employees. Although they are called “rebates,” the grants are not rebates of any taxes and are not revenue-neutral. Instead, they require a state appropriation.

## **Local Participation**

- Five states, including Texas, award funds directly to businesses, but strongly encourage them to work with a local government when applying.
- Six states, including Texas, award funds to local governments and public institutions as well as to businesses. Generally, these are deal-closing grants.
- Seven states award funds to local governments only. Generally, these are public infrastructure grants.
- Nine states require local matching funds. Generally, these are transportation infrastructure grants.
- Seven states have no local participation requirements for one or more incentive grants.

## **Special Terms**

- Generally, states have job and investment minimums for companies that receive grant funds. For example, Maryland’s Sunny Day Fund awards grants only to companies that will create at least 100 new jobs and invest at least five times the grant amount in a new or expanded business.
- Most states also factor in the location of the jobs in deciding the grant amount. Utah, for example, awards more grant funds to companies locating in rural counties than in urban ones.
- In some states, total wages are more important than the number of jobs created. Laws governing Arkansas incentives were changed in 2003 to base incentives on total payroll rather than the number of jobs.

- Generally, states have “clawback” provisions that require the grant to be returned if the terms are not fulfilled. Pennsylvania is one of several states with a monitoring section that keeps close tabs on promised jobs.
- A number of states target high-paying industries for incentive grants. Florida, for example, offers High Impact Performance Incentive Grants to companies in the silicon technology, transportation equipment manufacturing, and biomedical technology industries.
- Generally, states do not award grants totaling more than \$10,000 for every new job. In North Carolina, where grants traditionally totaled \$1,000 per new job, the legislature provided for a discretionary amount that is currently negotiated with each contract.

## State Survey Results

State Program, Contact Number	Funding	Revenue Source	Purpose	Local Participation	Special Terms
Alabama Site Preparation Grants 334/242-0400	\$11 million (annual)	Bonds, using cigarette tax for repayment	Site development, including surveying, clearing, and drainage	Grant awarded to cities, counties, and industrial boards; no match required	Industrial, warehousing, or research firms only
Arkansas Create Rebate Program 501/682-7697	\$10 million (annual)	General fund	Incentive grant equal to 3.9 to 5 percent of annual payroll for new employees	No local participation requirements	Minimum \$2 million new employee payroll required; incentives available 12 months after payroll requirement is met
Arkansas Economic Infrastructure Fund 501/682-1121	\$9 million (annual)	General fund	Public works projects that support job creation	Grants awarded to cities and counties; no match required	Grant now based on payroll and location instead of number of jobs
Colorado Economic Development Fund 303/892-3840	\$1.2 million (annual)	General fund	Existing business expansion and new business relocation costs	Grants and loans awarded to public and private entities; state money must be matched by local area	Grant based on location and wages
Delaware Strategic Fund 302/739-4271	\$10 million (annual)	General fund	Plant and equipment costs	Grants and loans awarded to public and private entities; no match requirement	“Clawback” provisions require grant to be returned for nonperformance
Florida Economic Development Transportation Trust Fund 850/488-6300	\$20 million (annual)	Gasoline tax	Transportation infrastructure to address “substantial impediment” to expansion and relocation plans and subsequent job growth	Grants awarded to cities, counties, and special districts; no match required	Grant cost per job cannot exceed \$7,500; maximum grant award is \$2 million
Florida High Impact Performance Incentive Grants 850/224-8116	\$6 million to \$8 million (annual)	General fund	Incentive grant to promote job creation in high impact industries such as silicon technology	No local participation requirements	Minimum 75 to 100 new jobs and \$75 million to \$100 million investment in three years

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Florida Quick Action Closing Fund 850/487-2191	\$25 million proposed for 2005; no funding in 2004; \$4 million in 2003	General fund	Deal-closing fund for start-up costs	Local participation strongly encouraged	Jobs, wages, and investment requirements negotiated for each contract
Georgia Economic Development, Growth, and Expansion (EDGE) Fund 478/274-7731	\$15 million (annual)	Tobacco settlement funds	Deal-closing fund for site development, infrastructure, and machinery and equipment costs	Local government works with business to apply	“Clawback” provisions require grant to be returned if job goals not met
Georgia Regional Economic Business Assistance (REBA) Fund 404/327-6841	\$3 million (annual)	General fund	Public infrastructure improvements	Local government receives funds; no match required	Grant capped at \$10,000 per job
Illinois Business Development Public Infrastructure Program 312/814-9592	\$5 million (annual)	General fund	Public infrastructure projects that lead directly to private sector expansion or retention activities	Grants and loans awarded to local governments	Project must create at least 1 new job for every \$10,000 awarded
Indiana Industrial Development Grants 317/232-8827	\$3.5 million (annual)	General fund	Off-site infrastructure improvements	Match program designed to supplement local funding sources	“Significant” number of new jobs required; at least 1 job must be created for each \$10,000 awarded
Revitalize Iowa’s Sound Economy (RISE) 515/239-1369	\$26 million (annual)	Gasoline tax	Road improvements and highway access	Grant awarded to local government; matching funds encouraged	Project must be consistent with state strategic plan
Louisiana Economic Development Award Program 225/342-1130	\$5 million (annual)	General fund	Deal-closing fund for last-minute infrastructure improvements	Application filed by public/quasi-public entity and private company	Project must create at least 10 new jobs
Louisiana Quality Jobs Program 225/342-5402	\$10 million (annual—program sunsets 12/31/04)	General fund	Incentive grant equal to 5 to 6 percent of annual payroll for new employees	No local participation requirements	Minimum \$1 million new employee payroll requirement reduced to \$500,000 or \$250,000, depending on employer size, by legislature

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Maryland Economic Development Opportunities Program Fund (Sunny Day Fund) 410/767-2369	\$2 million proposed for 2005; no funding in 2004; \$11 million in 2003	General fund	Deal-closing fund for extraordinary economic development opportunities that provide significant return to the state	Local government 10 percent match in cash or in-kind assistance is standard practice	Company's investment must be at least 5 times the grant amount; at least 100 new jobs also required
Mississippi ACE Fund 601/359-3552	\$1 million (proposed annual)	General obligation bonds	Proposed deal-closing fund for extraordinary economic development opportunities	Company would apply to local economic development entity, which would apply to state for grant	Project would be required to create at least 50 to 100 new jobs
Mississippi Economic Development Highway Fund 601/359-3552	\$12 million (annual)	General obligation bonds	Road improvements that support job creation	Grant application scores higher if local area matches funds	Company must invest at least \$50 million in project
Missouri Jobs Now 573/751-3946	\$12 million to \$15 million (proposed annual)	General fund dollars saved from elimination of tax credits	Proposed incentive grant for infrastructure projects, especially industrial parks	Local governments to receive grants and loans on behalf of businesses	Grant criteria to be established
Invest New Mexico 505/424-2500	\$220 million (annual—not appropriated by legislature)	State Severance Tax Permanent Fund	Private equity investment program whereby state coinvests in a business entity and in private equity funds	Business must prove financial viability; no local participation requirements	Goal is to recruit 5 businesses with at least 50 employees each
New York Economic Development Fund 212/803-3127	\$40 million (annual)	General fund	Land acquisition, construction, and infrastructure improvements	Businesses, local governments, and public institutions eligible for grants and loans from fund	Grant amount depends on number and type of new jobs
North Carolina Industrial Development Fund 919/733-5297	\$2 million to \$3 million proposed in 2005; no funding in 2004; \$2 million in 2003	General fund	Infrastructure improvements (grants); construction and equipment (loans)	Local government applies for assistance on behalf of business	Amount funded depends on number of new jobs; grant capped at \$5,000 per job or \$500,000 per project

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One North Carolina Fund 919/733-5297	\$15 million (annual)	General fund	Deal-closing fund with 4 eligible uses, including buildings, equipment, and infrastructure	Local government must provide matching financial assistance to company	Grant amount of \$1,000 per job changed to discretionary amount; company receives grant in installments as jobs are added
Ohio Business Development Grant Fund 614/466-4551	\$5 million to \$10 million (annual)	General fund	Capital expenditures	Local match not required	No specific job or investment goals
Ohio Road Work Development Grant Fund 614/466-4551	\$12 million (annual)	Gasoline tax	Road projects that promote job creation	Local government must match grant	No specific job or investment goals
Oklahoma Quality Jobs Ten-Year Cash Incentive 405/815-5266	\$10 million to \$50 million (annual)	General fund	Incentive grant in quarterly cash payments equal to 5 percent of payroll for new employees	No local participation requirements	Minimum new employee payroll of \$2.5 million required
Pennsylvania Infrastructure Development Program 717/787-7120	\$25 million (biennial)	General fund	Publicly owned infrastructure improvements	Local government applies on behalf of business	State monitoring section keeps close tabs on promised jobs
Pennsylvania Opportunity Grant Program (Governor's Action Team) 717/787-7120	\$50 million (biennial)	General fund	Deal-closing fund with 10 eligible uses, including infrastructure, working capital, and job training	Cities, development authorities, and companies eligible for grants	At least 100 new jobs must be created in most cases; requires private matching funds of at least 4 times the grant amount
South Carolina Economic Development Set-Aside Program 803/737-1869	\$18 million (annual)	Gasoline tax	Road or site improvements needed by new or expanding business	Local government match is encouraged	No specific job goals
Tennessee Industrial Infrastructure Program 615/741-6201	\$20 million (annual)	General fund	Water, wastewater, transportation infrastructure, etc.	Required local government match determined by index	Project must be initiated within 6 months of grant approval; maximum total grant for any single project is \$750,000

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Texas Enterprise Fund 512/936-0101	\$295 million (biennial)	Rainy Day Fund (general and special funds)	Deal-closing fund with 5 eligible uses, including infrastructure and community development	Business works with local government to apply; grant can also be awarded to local government and public institutions	Governor, lieutenant governor, and speaker approve each grant
Utah Industrial Assistance Fund 801/538-8698	\$20 million to \$25 million (annual)	General fund	Relocation and expansion costs (grants and loans)	Local government very involved, but company applies for and receives funds	Terms based on urban or rural location of new business
Virginia Governor's Opportunity Fund 804/371-8108	\$17.5 million (biennial)	General fund	Deal-closing fund for infrastructure improvements, transportation access, site development, and construction costs	Dollar-for-dollar match required	Minimum 100 jobs and \$10 million investment
Virginia Industrial Road/Rail Access Programs 804/786-2746 (roads) 804/786-1065 (rail)	\$5.5 million (annual)	Gasoline tax	Access roads, connecting rail lines to new and expanding business	Local match required for any grant funds above certain threshold	Business investment must be 10 times grant amount
Virginia Investment Partnership Grant Fund 804/371-8106	\$30 million proposed for 2007-2008	General fund	Proposed incentive grant for new jobs maintained after 6 years	No local participation requirements	1,000 new jobs or \$25 million investment required for eligibility
West Virginia Sunny Day Fund 304/558-2234	\$10 million proposed	Lottery proceeds	Proposed deal-closing fund for expansion and relocation costs	No local match requirement proposed	Grant amount to be based on investment and wages

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