

Why Are We “Giving Away These Huge Incentives”?

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Nearly every week, I see some ill-informed editorial, read a comment by an elected official, or hear from a member in our community about these “huge” incentives we seem to be giving away to attract “unwanted” companies resulting in unnecessary growth. Some believe that these “taxpayer-funded giveaways” have adversely impacted our region resulting in unfunded infrastructure needs, homelessness, rent increases or other problems that our government must now fix. I am not surprised by this “glass-is-only-90%-full” perspective, as incentives are one of the most disliked and least understood economic development tools. So, what are incentives? Do they cost us anything? And, do we really need them?

What are Incentives? In its simplest form, an incentive is “something that motivates or encourages one to act.” We are incentivized to endure the pain of exercise for our health and appearance or to line up outside of a store before it opens on Black Friday for discounts or savings. Just like people, companies are incentivized - to select one location over another. In return, they provide the positive impacts of their company’s investments in real estate and equipment, and of course, they add jobs to the region. However, these positive effects tend to be ignored by the critics. This is similar to only talking about the pain of getting up early to stand in line on Black Friday and not mentioning the great deals received as a result of that pain.

How do economic development incentives work? Unlike in many other states, incentives in Nevada are not “giving away” tax dollars; instead, they reduce some of the company’s taxes over a period of time, which is called a “tax abatement.” This is similar to a merchant selling items at a discount. When the merchant sells the item listed for \$100 on sale for \$80, the merchant doesn’t say, “I just gave away \$20.” Yet, with incentives that is often what we hear! The focus is on the abated taxes we are “giving away” rather than the taxes and many other benefits the company, its suppliers, and its employees are providing because of the new company’s investment in our community. Like the merchant’s item that may not have been purchased if it was not on sale, the revenue and secondary benefits from the company may not happen without the incentives.

Do Incentives really cost us anything? A recent state economic development report calculated that 41 companies received incentives in our region over the past three years. For every dollar that was abated, the state and local governments received \$4.95 in additional new revenue. This only includes the taxes the new companies pay and does not include the additional taxes their employees and suppliers pay. It is also worth mentioning that the 5,625 new incentivized jobs over the three years pay nearly \$27 an hour which is \$10 an hour above the \$17 an hour wage maximum to qualify for Medicaid. With more than 250,000 jobs in the area, could this less-than-1% incentivized job growth per year really be causing all of our problems?

Do we really need incentives? In short, Yes. If you lived here 10 years ago, you know what real economic pain looks like. Companies that are creating the jobs of the future are in high demand and are valuable to the community that can attract or grow them. This is particularly true as artificial intelligence and robotics are being incorporated into everything we do, eliminating many of the existing jobs while creating many new ones. The reality is, without minimal incentives we cannot compete for the new jobs and companies we need to continue our success and diversify our economy. We want to shape our economic future, rather than just accept whatever we can get. The old saying rings true – you get what you pay for!