

Ending Job Piracy, Building Regional Prosperity

by Leigh McIlvaine
with Greg LeRoy

July 2014



www.goodjobsfirst.org
1616 P Street NW Suite 210
Washington, DC 20036
202-232-1616

©copyright 2014 Good Jobs First. All rights reserved.

Executive Summary

Among the most wasteful uses of economic development funds are subsidies used by local governments to pirate jobs from nearby communities within the same metropolitan area. However, two metro areas—Denver, Colorado and Dayton, Ohio— have developed successful strategies to curb intra-regional job piracy. Using explicit anti-piracy agreements focused on procedural aspects of economic development practice, the two metropolitan regions have successfully halted such abuses. Through these agreements, they have also managed to develop a culture of regionalism.

The use of subsidies to shift jobs around a metro area carries the cost of lost tax revenues and reduced services. But the full costs of intra-regional job piracy go beyond the development subsidies: because business relocations are so often moves from central metropolitan locations to fringe suburban areas, they create externalities associated with sprawl and regional inequality.

Although many metropolitan areas struggle with the challenge of intra-regional job piracy, few have attempted to proactively remedy the problem.

Those that do address it have had various degrees of success cultivating a regional economic development culture. Commonly used elements of successful region-based economic development agreements are tax-base sharing, transparency policies related to business inquiries, education programs, retention strategies, and shared access to community economic development funds.

In Denver, Colorado, the Metro Denver Economic Development Corporation (EDC), employs a Code of Ethics that is binding upon participating jurisdictions. The Code requires transparency, respect, and cooperation by member localities that work together for regional prosperity. In the Dayton, Ohio metropolitan region, the Montgomery County ED/GE and Business First! programs allow member jurisdictions to participate in a tax-base sharing program, while also providing access to a shared economic development fund for region-focused projects. Like the Metro Denver EDC Code of Ethics, the Montgomery County programs emphasize transparency, cooperation, and mutual respect among member communities. Both of these metros

credit successful region-based economic development strategies for helping win major job creation projects.

In sharp contrast to these regions are the Twin Cities in Minnesota and the Kansas City metro, which spans counties in both Kansas and Missouri. In their attempts to address intra-regional job piracy, neither region has emphasized the procedural aspects of such agreements. In the Twin Cities, the Fiscal Disparities Act has failed to curb local job piracy by simply sharing some tax-base growth. The Kansas City area has a bitter, costly jobs war that the two states have so far been unable to resolve. However, in June 2014, Missouri enacted a law which, if reciprocated by Kansas within two years, will end the use of state subsidies for interstate job piracy there. Enacted at the insistence of a group of bi-state business interests, the pioneering Missouri legislation has the potential to inspire similar efforts in metro areas such as New York, Memphis and Charlotte.

Policy takeaways from these successful regional systems include:

- practicing transparency (especially when an incumbent employer signals a possible relocation);
 - building flexibility into agreements;
 - emphasizing and embedding processes of cooperation; and
 - reforming state economic development program rules that a) pressure localities to match state incentives, b) allow companies to receive state subsidies for intra-metro relocations that lack the blessing of the “losing” community, and c) allow tax increment financing (TIF) to be used for intra-metro relocations.
- focusing on economic development practitioners (rather than elected officials);
 - educating key community members;

Introduction

Good Jobs First has written extensively on the problems created by job piracy, and especially on the wasteful use of economic development subsidies when they aren't incentivizing the creation of any new jobs. In our 2013 study *The Job Creation Shell Game*, we detailed how states use subsidies to pirate jobs across state lines—sometimes very short distances in multi-state metro areas like Kansas City or Memphis—at great cost to taxpayers.

While this “economic war among the states” has been recognized and decried for decades, far more common are job wars among suburbs and between cities and suburbs in the same metro areas. Indeed, such moves are far more common than long-distance relocations across state lines. Using powers they derive from state law, localities use business incentives to poach jobs from their neighbors. When subsidies are used to lure businesses from one community to another, claims that “new jobs” are being created are truly fraudulent.¹ The waste is especially egregious when the move occurs within the same labor market, with the result that companies receive eight-

figure packages to merely change their employees' commuting patterns.

Job poaching is especially corrosive because it undermines local tax revenues. Local job subsidies are primarily derived from property taxes – revenues that would otherwise fund school budgets, fire and police protection, and road, water and sewer infrastructure. When local governments forego property taxes from businesses in the name of economic development, they still must provide services to those companies. That means higher taxes on everyone else, degraded public services, or some of both.

But intra-regional job piracy also creates costs for an entire region. Good Jobs First has demonstrated in numerous analyses that subsidized business relocations are decidedly sprawling.² Overwhelmingly outward-bound, such relocations shortchange communities of color, areas with high unemployment and poverty, and neighborhoods hardest hit by plant closings and mass layoffs; they also make more jobs inaccessible via public transit.

In addition to the direct costs of financing new infrastructure to serve greenfields, development on the fringe also brings indirect costs: tax-base strain in those localities that are abandoned; increased commuter congestion and lower air quality, and loss of arable land. Cheaper land, the appeal of less-complicated greenfield development sites, and room to expand make the fringe of many metro areas innately attractive for many businesses. So why pay companies to go there? Or, as a Minnesota wag once put it: “Subsidizing economic development in the suburbs is like paying teenagers to think about sex.”

The use of property tax abatements and tax increment financing (TIF) to pirate

jobs from neighboring communities within a metropolitan region is worse than a zero-sum game: it is a net-loss game because overall it reduces the amount of funding available for education and infrastructure and other public goods that benefit all employers. Managing the use of subsidies by many small jurisdictions to control beggar-thy-neighbor practices is a challenge overcome by only a couple of metros. The problem seems so intractable that few even attempt to address it.

Our report highlights the small number of metropolitan areas with various approaches intended to halt the wasteful practice of subsidizing businesses to simply shift jobs around within a region at taxpayer expense.

Failing Models in Regions with Piracy

Minneapolis/St. Paul, Minnesota

Balkanized metropolitan areas face a special challenge when communities pirate nearby jobs. Minnesota's sprawling Twin Cities region now encompasses 13 counties and hundreds of cities and towns in both Minnesota and Wisconsin. Faced with central city decline in the 1960s and 70s, the state responded with the Fiscal Disparities Act (colloquially known as the Weaver Act for its lead sponsor, Rep. Charles Weaver of Anoka), a tax base-sharing program that includes the seven Minnesota counties that then comprised the Twin Cities metropolitan region. The Act, in effect since 1975, requires all included communities to share 40 percent of the subsequent growth in their commercial-industrial tax base. That revenue is redistributed among jurisdictions in the region according to population. As of 2011, 37 percent of the seven counties' commercial-industrial property tax base and 11 percent of the total property tax base was in the pool.³

Although the Weaver Act has successfully redistributed incremental growth in revenues around the

metropolitan area, and even though one of its six stated objectives was, as scholars have summarized, "to establish incentives for all parts of the area to work for the growth of the area as a whole,"⁴ it has failed to engender a culture of regional cooperation in participating communities. Local job piracy remains a problem. Through an analysis of 86 intra-metro business relocations in the Twin Cities region during the early 2000s, Good Jobs First determined that four-fifths of relocations were outbound, with more than a quarter moving 10 miles or more farther away from the urban core.⁵ Three-quarters of the relocations were subsidized through tax increment financing, a subsidy derived from the future growth in property tax revenues.

Interviews with "winning" local development officials found that some actively solicited businesses through a variety of methods, from impersonal fliers to business-specific pitches to partnering with industrial realtors. Even when moves were initiated by companies, interviews with development directors of those localities gaining or losing the most employers made it clear they did not even speak

to each other at the time, even when companies pitted them against each other (in an echo of the “prisoners’ dilemma” dynamic that has long been noted among states competing for deals). One official representing a community that lost several employers expressed frustration at the use of subsidies by its neighbor: “Isanti gave them incentives. If you try to play ball against Isanti you’ll lose. If you go low, they’ll go lower. The cities are going to have to merge someday.”⁶

So although the Weaver Act’s intention was to make the gains in property tax revenues contribute to regional equity, local job piracy within the metro continues. The law’s goal of reducing competition for economic development by sharing the benefits of growth has proven elusive, because it did not directly address economic development *practice*. That is, the law creates no systems for communication or cooperation among localities; it has no proactive procedures for agencies to follow when a company indicates it might relocate. Lacking such features, the Weaver Act has failed to create in participating jurisdictions any mutual sense of responsibility.

Kansas City, Missouri/Kansas

The Kansas City metropolitan area, which spans 15 counties in Missouri and Kansas, represents an extreme example of job poaching, with both state and local agencies paying firms to move short distances across the state line. The problem is routinely referred to as the “border war,” and has become so costly for the region that in 2011 a coalition of business leaders began publicly calling for the governors of both states to agree to a cease-fire. “We can’t grow this community if we’re using our incentives to steal from each other instead of attracting real new economic growth,” read an open letter co-signed by chief executives from 17 major companies in the region.⁷

Unfortunately for Kansas Citians, multiple attempts by lawmakers in both states to legislate a solution to the problem have thus far failed to produce a solution. In 1998, the two states signed an anti-piracy agreement that was an utter failure. A more recent attempt to address the border war by the Missouri legislature also ended in disappointment; in 2012 lawmakers there debated a bill that would have required Missouri to stop paying companies to move from Kansas, as long as Kansas passed a mirror bill. The uniquely structured law also contained a “stick” provision – had the bill become

law without a Kansas counterpart, it would have obligated the state to spend on economic development at one and a half times the rate of Kansas.

In late June 2014, Missouri succeeded in passing a more toned down version of the failed 2012 proposal. The state will stop subsidizing Kansas companies that relocate into Kansas City's eight Missouri counties, as long as Kansas passes a companion law within two years. This bill did not come without warnings of its own: "If they don't join us, we may find ourselves in a place a couple of years down the road where we are standing on this floor debating a Kansas recruitment act," Sen. Ryan

Silvey, the bill's sponsor, said during debate.⁸ Kansas has not yet responded as of publication of this study.

Despite the good intentions of the lawmakers who have supported these bills, simply banning the use of subsidies for intra-metro relocations will fall short of creating a new regional culture among local governments. Laws that frame the two states as competitors with a region-based dilemma miss the point: regions are the solution, not the problem. If Kansas does reciprocate, hopefully the localities will build on the momentum and create systems that involve face-to-face cooperation.

Regions That Work and Prosper Together

Regional anti-piracy agreements – pacts signed by local governments and/or economic development practitioners that prohibit the direct solicitation of businesses located within the metro region – have the promise to promote regional prosperity and bring an end to the wasteful poaching of jobs from neighboring communities. The basis of such agreements varies widely. Tax-base sharing, transparency policies related to business inquiries, education programs, retention strategies, and shared access to economic development funds are all features routinely included in such agreements. Examples include:⁹

- Cuyahoga County, Ohio: The Cuyahoga Business Attraction and Anti-Poaching Protocol (est. 2011)¹⁰
- The East Bay chapter of the California Association for Local Economic Development: Code of Ethics, Lead Solicitation and Processing for Economic Development Professionals and Organizations (est. 2003)¹¹
- Broward, Miami-Dade and Palm Beach Counties, Florida: Tri

County Reciprocal Interlocal Agreement¹² (2002, unofficial)

The most successful agreements, used for decades in the Denver, Colorado and Dayton, Ohio (Montgomery County) metropolitan regions, include more than one of these features.

Denver, Colorado

The Metro Denver Economic Development Corporation (EDC) is a regional economic development membership organization comprised of 70 city, county, industry and economic development groups in the Denver metropolitan region. The organization is dedicated to the promotion of the region as “a single economic entity”¹³ upon which every community relies.

Members sign a Code of Ethics that has been employed since the late 1980s, when the Metro Denver EDC, then the Greater Denver Corporation, was founded by eight regional economic development leaders. The Code of Ethics guides member behavior in order to promote the well-being of the region first, ahead of members’ individual

gains. It has only been modified once in its 25-plus years of use. The organization has been so successful in its pursuit of regionalism that it has produced a sea change in the culture of economic development in the region. All cities and towns in the Denver metropolitan area follow the Code of Ethics, whether or not they have signed on as members of the Denver Metro EDC.

However, membership in the Metro Denver EDC is not about being constrained by its ethics code: it is about tangible benefits that free participating localities to focus on the big picture. The EDC functions as a one-stop shop for businesses that need economic development assistance; it also engages in marketing and outreach on behalf of the entire region, including foreign trade missions. Metro Denver EDC maintains site selection data and property databases that it uses to refer growing and relocating businesses to communities with appropriate sites, and provides multi-agency coordination assistance to members pursuing projects of regional and statewide significance. Finally, one of the most compelling reasons to be a member of the Metro Denver EDC is the access to shared information created by its culture of transparency.

Key Components of the Code of Ethics

Transparency. Sharing information about potential business expansions and relocations within and into the region is the foundation of the professional culture promoted by the Metro Denver EDC.

We are committed to sharing among our membership as much information as is necessary and prudent on any activity undertaken by or in the name of the Metro Denver EDC. Our guiding principle shall be that “more information is better than less.”

Cooperation. Individual members are cultivated as collaborators rather than competitors. According to Laura Brandt, Metro Denver EDC Director of Economic Development, site location consultants sometimes attempt to play communities against each other within the region.¹⁴ To combat this, member organizations share information with the Metro Denver EDC in order to find a location best suited for the prospect business’s needs and ensure that potential communities have an equal opportunity for consideration.

When representing the Metro Denver EDC, we shall endeavor to sell “Metro Denver First” and our individual communities and projects second...

Respect. Member organizations are required to treat each other with respect, especially as it pertains to solicitation of businesses.

At no time shall any member of the Metro Denver EDC solicit a fellow member’s prospects....At no time shall any economic development organization member of the Metro Denver EDC advertise or promote its respective area to companies within another member’s geographic area in a manner that is derogatory or insulting to the other geographic area.

Companies that are considering an intra-regional relocation do so under the known condition of information-sharing between communities, and dismissal of the legitimacy of another community’s self interest in retaining a business is discouraged through a culture of respect for member organizations.

In the event a company chooses to relocate from one community to another, every

effort will be made to contact the affected community to let them know of the potential move. Violation of this commitment shall be viewed as the single most serious breach of our membership pledge to the Metro Denver EDC.

Challenges to Denver’s Regionalism

The commitment to regionalism by economic developers – especially in a region so geographically expansive – is not without challenges. The Denver International Airport (DIA) is located 25 miles from downtown Denver. The nearby community of Aurora, Colorado approved a massive convention center development in 2011. The Gaylord Rockies project, a 1,500-room hotel, meeting, and entertainment facility, received both state and local subsidies (tax increment financing from Aurora), stoking a controversy over the wisdom of the state subsidizing a facility that has the potential to cannibalize business from the Colorado Convention Center, located in downtown Denver. A suit brought by 11 hospitality companies against the state to block the \$81 million tourism-based incentive was dismissed early in 2014.¹⁵

The same year that the Gaylord Rockies project was approved, the National

Western Stock Show announced that it was considering relocating its annual events from Denver to a site adjacent to the new Aurora convention center. The show, which is celebrating its 109th year, is considered a Denver institution. (It is now likely that the show's facilities will instead be renovated and the Stock Show will remain in Denver.)

Such events strain the regional unity that the Metro Denver EDC strives to engender in its member communities. But it's not unusual for conflicts to arise. In a membership organization of its size, "there's always somebody not totally off the ranch, but has one foot outside," according to Brandt. In particular, she said, "things heat up when there's a change in elected officials but eventually cool down...in the long term, it works." Because the Metro Denver EDC's site selection process depends first on availability of properties, at times some communities can feel like they are getting fewer prospects than their neighbors. Over the long term, says Brandt, property searches change and the distribution of projects evens out.

Success Through Regionalism: Vestas

A regional approach to economic development has proved to be a competitive advantage for the Denver

metro area on more than one occasion. In particular, the Metro Denver EDC credits its regional model with landing Vestas Wind Systems, the Danish wind turbine manufacturer that currently employs approximately 1,500 Coloradoans.¹⁶ After a long site selection process in which the company settled on building a manufacturing facility in Windsor, Colorado, Vestas made an exciting announcement at its ground breaking in 2007. It planned to double the size of the Windsor plant *and* open two additional manufacturing locations in the state!

Unfortunately the Windsor expansion plan did not pan out. Having already seen all available industrial properties in the state, the company asked the Metro Denver EDC and the Colorado Office of Economic Development and International Trade to find additional suitable sites. Members of the Metro Denver EDC collaborated and quickly assembled a site that was owned by the Regional Transportation District (the area transit organization) and the City of Brighton.

Metro Denver EDC believes that its regional model made it uniquely positioned to meet this site location challenge. According to the organization:

“The Vestas projects were possible because of the historic collaboration between multiple entities and organizations – public and private, federal, state, and local – that brought expertise and financial and technical assistance to bear throughout the site selection and development process. Colorado is a state with a small government ethos that does not allow for the large incentive awards offered by our competitor states. Collaboration, creativity, and customer service were crucial to attracting the world’s leading manufacturer in a widely coveted industry.”¹⁷

The Vestas manufacturing facilities have been a resounding success and an ongoing source of economic growth for the Denver region and the state. Despite the expiration of the federal wind energy tax credit in 2012, the company’s long term employment trend is growth. In spring of 2014, Vestas announced it would add 850 manufacturing jobs to its Colorado facilities, bringing total employment to over 2,000 statewide.¹⁸

Why Denver’s System Works

Professionalism is emphasized.

Embedded in each of the above-cited components of the Code of Ethics is an expectation that members will conduct themselves in a professional manner. Disrespecting other communities, secrecy, and interference are not understood to be legitimate or reasonable tactics in the pursuit of economic development. The Metro Denver EDC Code of Ethics guides the conduct of its members away from deals that will harm the region while defining transparency, cooperation, and respect as core components of professionalism.

Accountability is also key. When a member lodges a complaint against another member for unprofessional conduct contrary to the code of ethics, the Chair of the organization will call together three to five members into a meeting with the offender. If the member’s behavior is determined to be inappropriate, the offending individual is asked to issue a public apology or issue a statement to staff correcting their action and guiding future actions. This process has been necessary only three times in the past 26 years, according to Brandt. Not a single member has ever been expelled from the Metro Denver EDC.

Ongoing education promotes buy-in.

In addition to performing the duties of site selection resource center and coordinating member projects, the Metro Denver EDC informs policy in the region and the state through a series of annual white papers. Organization members vote to select priority agenda items for the year and discussions created through this process also serve to educate members on issues facing their communities. Moreover, voting serves to create member buy-in. Although it is a less frequent activity, it is perhaps equally important that members are required to re-sign the Code of Ethics every few years. According to Brandt, re-signing reminds staff new to the region and newly elected officials of the agreement they have to pursue regional economic goals.

Relationship-building creates trust.

Denver’s regional metropolitan development model has no force of law; there is no legislation ensuring that participants will treat their commitments to regionalism as a binding contract. The Metro Denver model relies upon trust: its members believe that the system will serve their communities fairly *and* feel confident that investments in neighboring communities will benefit their own as well. This trust hinges relationship-building built through active cooperation.

Montgomery County, Ohio

Nearly as old as the Denver region’s Code of Ethics is the Montgomery County Economic Development/ Government Equity (ED/GE) program. Launched in 1991, ED/GE is an innovative economic development fund tied to a small regional revenue-sharing program. The economic development (ED) portion of the program makes available a pool of \$5 million annually for regionally significant projects in the county.¹⁹ Competitive grants are awarded twice yearly after winners of an application process are recommended to county commissioners by the ED/GE Advisory Committee – a group of 15 private-sector and 12 public-sector members from participating communities.

The Government Equity (GE) portion of the program serves the entire region by distributing incremental growth in tax revenues from faster growing to slower growing or declining areas of the county. Included in this program is a “settle up provision:” every three years, each locality’s contributions and distributions are summed up, and if a community has contributed more to the region via the GE program than it has received from the ED fund, it is entitled to receive funds back from the county. The goal of the GE program is to “share the costs and benefits of economic

growth to promote economic health in all communities.”

ED applications are evaluated under a number of selection criteria; an important consideration is that intra-county relocations are discouraged. In order for such a deal to be considered, one of the following conditions must be met: a) the incumbent community has inadequate expansion space for the relocating business, b) inadequate infrastructure exists to support the needs of the relocating business, or c) the existing location has become inappropriate for the relocating business.

In addition to the ED/GE program, the greater Dayton region utilizes a single point-of-contact business retention network called Business First! The outreach-based program is staffed by a group of more than 50 government agencies, development organizations and nonprofit corporations. Business First! communities agree not to “actively pursue” businesses within participating jurisdictions. When a company lets it be known that it is considering relocating, member communities also agree to share that information in writing and by phone. The goal of Business First! is to encourage all communities to “do whatever may be done to keep the business in the community where they currently reside, but if not, keep them

in the county, and then the Dayton Region.”²⁰

Communities participate in the ED/GE and Business First! programs because like the Metro Denver EDC, that participation provides them with access to shared information about possible new projects or potentially footloose firms in their own jurisdictions. But access to the competitive ED fund is also a major draw; that fund is often used to leverage additional investment through state subsidy programs. Additionally, the Business First! network connects participating communities to various economic development resources available to them in the Miami Valley area.

The ED/GE program boasts 100 percent participation among localities in Montgomery County. The Business First! program, in addition to all of Montgomery County, has grown to include the counties of Miami, Preble, Darke, and parts of Greene County.

Key Components of the ED/GE and Business First! Programs

Communication. In an application for ED funds that involves a business relocation, if one of the above-listed conditions is forcing the business to move, the grant application must

include a letter from the losing jurisdiction indicating its support for the project. An applicant lacking such support will not receive funding. Business First! requires multiple forms of communication between jurisdictions affected by a relocating company, but equally as important is its emphasis on open discussion. The membership structure is intended to be a “forum for discussion between individual communities regarding joint economic development districts, tax sharing and other innovative economic development initiatives.”²¹

Loss Mitigation. The GE portion of the program ensures that communities that are not “winning” new businesses are not losing revenues to growing jurisdictions. In recent years, the selection criteria for ED applicants began to encourage relocation applicants to establish tax-sharing agreements between the two affected communities (in addition to and separate from the county-wide GE) to mitigate tax revenue losses in communities losing jobs.

Transparency. Business First! requires partner organizations to submit information about business relocations and other activities into a database created for it by the Pennsylvania-based consulting firm Executive Pulse.²² The database is a repository

for economic development news and leads for participating communities that also helps practitioners better serve businesses in the region. This system of information sharing both ensures regional cooperation and enhances the value of service offered to companies in the region.

Success through Dayton Regionalism: Motoman

Yaskawa Motoman is a subsidiary of a Japanese corporation that manufactures robotics components in the Dayton region. In the early 2000s it began to outgrow its 180,000 square-foot headquarters in West Carrollton and two facilities it occupied in Troy, a suburb 30 miles north. The company expressed interest in consolidation when its three leases expired in 2010. “They didn’t pull the Illinois card, but they had the capacity in Illinois to move there,” said Erik Collins, Montgomery County Director of Community & Economic Development. The region began to look for a solution.

West Carrollton conducted a Business First! retention interview with Motoman to learn about the company’s needs and how they might be met within the community. When it was determined that the company couldn’t obtain the necessary capacity within

West Carrollton, Montgomery County economic development officials began to explore options for consolidating elsewhere in the county, eventually settling on a Miamisburg site just five miles from the current headquarters location.

The project was awarded a \$390,000 ED/GE grant to support a new parking lot and site improvements in Miamisburg.²³ Motoman's investment of \$18.4 million in the 300,000 square-foot office and production facility would house between 250 and 275 employees.²⁴

Although the short move presumably had little impact on West Carrollton-based employees of Motoman, the company was one of the community's largest employers. The tax revenue losses to West Carrollton were taken into account, and as a part of the relocation deal Miamisburg agreed to a tax-sharing agreement, partially reimbursing West Carrollton for its lost tax revenues for five years, starting at 50 percent and tapering 10 percent annually for an estimated total of \$345,000 over the life of the agreement.²⁵

Why Dayton's Systems Work

Emphasis on regional prosperity. ED fund applicants are encouraged

to submit projects that will have a regionally significant economic impact. Communities that don't "win" directly understand they will benefit from awards made other jurisdictions because workers commute across city lines. Collins describes the county's approach: "It can't be my community versus your community, we are competing against everyone. We may have disagreements but if we're not in regional alignment we are going to be at a distinct disadvantage in a global market."²⁶

Ongoing education preserves institutional memory. The County's efforts to maintain such a long-standing program have been intentional and focused on education. In addition to regular seminars on how ED/GE works and training sessions, new communities signing on to the agreement and newly elected officials meet with ED/GE managers to discuss what is expected of them *and* what they can get out of the program.

Accountability is paramount. Projects that will not produce a regionally significant impact are not funded, because according to Collins, the ED/GE Committee views itself as accountable to the entire region:

"We're trying to be responsible to taxpayers. We have to be so prodigious

and accountable of how we use that money. We need to understand why that company needs anything... [because] this is a business transaction for the taxpayers. We're not using [their] money to move deck chairs around."

Fairness is emphasized. The structure of the ED/GE program acknowledges that even within a region that is

committed to cooperation in economic development, there are inherent winners and losers. The difference between Montgomery County and other regions facing the same challenges lies in its willingness to confront the issue of fairness head on and provide a remedy. As applied by the ED/GE and Business First! programs, tax-base sharing has been a successful policy to improve fairness in economic development.

Policy Lessons

Successful regional anti-piracy agreements contain a number of common characteristics that are critical to changing economic development behavior for the good of the region.

Focus on practitioners. While elected officials may take credit for “creating” jobs, economic development professionals do the work. Long-term relationships, institutional memory, and regional culture – be they competitive or cooperative – lie with practitioners. Inculcating the region’s professionals with a sense of responsibility to each other and professional standards focused on regional prosperity can create positive peer norms that will outlast any election cycle.

Educate all key figures. Instilling a sense of regional responsibility in economic development professionals is a progressive first step, but the commitment must also have the support of community leadership. Education (through personal outreach, trainings, or seminars) on how the existing cooperative regional culture benefits the communities they represent is necessary for newly elected officials. Periodic renewal of anti-

piracy agreements can also serve to educate communities and economic development professionals about how regional prosperity relies upon their cooperation.

Practice transparency to the region’s advantage. Sharing information about potential relocations, prospective businesses and retention opportunities is more valuable to most economic developers than the meager gains obtained by poaching jobs locally. One of the most critical outcomes of a regionally focused economic development system is the potential for officials to help prevent the loss of jobs. Anti-piracy agreements with a strong transparency component support this because communities are notified when local firms signal to neighboring jurisdictions their interest in relocating out of town.

Build flexibility into agreements. Agreements should recognize that communities cannot always meet the needs of incumbent businesses and allow for respectful self-promotion by localities that may better meet those needs. Permitting two communities the flexibility to negotiate their own

terms on an intra-metro relocation, as allowed by Business First! tax-sharing agreements, is also a useful way to promote community buy-in.

Emphasize the process. Attempts to legislate fairness and/or regulate the use of subsidies only go so far. Anti-piracy agreements cannot operate successfully without the buy-in of the elected officials, economic development practitioners, and businesses affected by them. That buy-in is achieved by making these stakeholders a critical part of a process that involves negotiating, sharing information, educating and interacting with each other in ways that build relationships and trust and visibly serve local self-interests.

States can help. While the responsibility to cooperate with neighboring localities rests squarely on communities, there are a few state policies that work against regionalism. Addressing these deficiencies would lower barriers to regional cooperation in economic development:

- Abolish provisions commonly included in state subsidy programs that require localities to “leverage” state incentive money with local subsidies. Pressuring communities to ante up only exacerbates intra-regional competition.

- As proposed by various Missouri reform bills, states should withhold subsidies from intra-regional relocations when those companies are not producing new jobs, especially in cases where the company lacks the “blessing” of the community from which it is departing. In *The Job Creation Shell Game*, we identified 40 states with at least one subsidy program that disallows subsidies for existing jobs that are merely being moved within their own borders; extension of this common provision to all state subsidies is an achievable reform.²⁷
- Reform tax increment finance laws to limit the use of this subsidy by local governments to projects that are not relocating from within the metropolitan region.

As demonstrated by the Denver and Dayton metropolitan regions, anti-piracy agreements have the potential to help communities retain jobs and protect local tax revenues. But these regions have also proved that anti-piracy agreements hold promise to transform the way that practitioners engage in economic development altogether, by cultivating an economic development ethos that is focused on shared regional prosperity.

- 1 More information on “job fraud” is available in Greg LeRoy, et al. *The Job Creation Shell Game: Ending the Wasteful Practice of Subsidizing Companies that Move Jobs from One State to Another*. Good Jobs First. January 2013 At: <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/shellgame.pdf>
- 2 See, for example: Greg LeRoy and Karla Walter. *The Thin Cities: How Subsidized Job Piracy Deepens Inequality in the Twin Cities Region*. Good Jobs First. December 2006 at: <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/thincities.pdf>
- 3 Regional Planning for a Sustainable America. Regional Tax Base Sharing.” Online at <http://www.regionalplans.org/featured-regional-planning-programs-and-issues/tax-base-sharing/>
- 4 Myron Orfield and Nicholas Wallace, “The Minnesota Fiscal Disparities Act of 1971: The Twin Cities; Struggle and Blueprint for Regional Cooperation,” William Mitchell Law Review, Vol. 33:2, (2007) at: <http://www.wmitchell.edu/lawreview/Volume33/documents/4.Orfield.pdf>
- 5 LeRoy and Walter, op cit.
- 6 Good Jobs First interview with John T. Sullivan, Economic Development Director for the City of Cambridge, Minnesota. August 1, 2006.
- 7 Kevin Collison. “Top corporate leaders urge governors to stop poaching neighbors’ businesses.” *Kansas City Star*. April 12, 2011.
- 8 David A. Lieb. “Missouri legislation seeks to end business border war with Kansas.” *Associated Press*. February 27, 2014.
- 9 For more examples, see: Wendy Patton. “State and Local ‘Anti-Poaching’ Agreements: Background Information.” Policy Matters Ohio. September 2006.
- 10 Cuyahoga Business Attraction and Anti-Poaching Protocol, available online at http://regionalcollaboration.cuyahogacounty.us/pdf_regionalcollab/en-US/AntiPoachingProtocol.pdf
- 11 The National League of Cities has hosted the East Bay CALED Code of Ethics online, available at: <http://www.nlc.org/Documents/Find%20City%20Solutions/Research%20Innovation/Economic%20Development/EastBayGuidelines.pdf>
- 12 Miami-Dade County Beacon Council, Inc., Resolution Supporting a Tri-County Reciprocal Interlocal Agreement, February 8, 2002. This agreement was never officially enacted.
- 13 Metro Denver Economic Development Corporation Code of Ethics at: <http://www.metrodenver.org/about/partners/code-of-ethics/>
- 14 Telephone interview with Laura Brandt, Director of Economic Development, Metro Denver Economic Development Corporation. May 23, 2014
- 15 Carlos Illescas. “Aurora wins battle against Denver hotels in Gaylord hotel project.” *Denver Post*. April 9, 2014.
- 16 Mark Jaffe. “Vestas Wind Systems to boost hiring at its Colorado factories.” *Denver Post*. March 11, 2014.
- 17 Vestas summary provided by Laura Brandt, Metro Denver Economic Development Corporation.
- 18 Kathy Proctor. “Vestas is on a hiring spree at its Colorado wind turbine plants.” *Denver Business Journal*. March 11, 2014.
- 19 Some years the fund is smaller as it is dependent upon sales tax revenues.
- 20 Business First! Intergovernmental Cooperation Agreement, 2011-2015.

- 21 Ibid.
- 22 See <http://www.executivepulse.com/>
- 23 "Five Dayton-area projects to get ED/GE funding." *Dayton Business Journal*. May 21, 2010.
- 24 "Yaskawa America Announces New Motoman Robotics Facility Location." Robotics Online. June 24, 2010. Available at http://www.robotics.org/content-detail.cfm/Industrial-Robotics-News/Yaskawa-America-Announces-New-Motoman-Robotics-Facility-Location/content_id/2233
- 25 "Tax-sharing deal struck for Motoman move." *Dayton Business Journal*. May 12, 2010.
- 26 Telephone interview with Erik Collins, Director, Community & Economic Development, Montgomery County, Ohio. May 29, 2014.
- 27 Greg LeRoy, et al. *The Job Creation Shell Game*, op cit.

Acknowledgements

Good Jobs First gratefully acknowledges the support of the Ford Foundation's Metropolitan Opportunity Unit which made this research possible.

We also wish to thank Laura Brandt of the Metro Denver EDC and Erik Collins of Montgomery County, Ohio for their invaluable assistance in producing this report.