

Investments in the Community

How States Create the Conditions for Growth

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Firms consistently identify transportation infrastructure, utility infrastructure, and higher education resources as important factors in their location decisions. Investing in those areas can help state governments provide a better environment for businesses to reliably access markets and obtain inputs, including labor, leading to economic growth and creating a vibrant community for residents.¹



Benefits of Community Investment

States invest in their infrastructure to create efficient marketplaces and vibrant, dynamic communities. States with relatively high tax rates can have better economic outcomes than states with lower tax rates if the revenue is used to support productive public investments

TRANSPORTATION INFRASTRUCTURE

Investment in highways, roads, sea-ports, airports, and other transportation infrastructure underlies the economy of a region, determining the flow of goods and services as well as labor. The economic benefits of infrastructure investments are widely touted, but not all investments deliver gains equally. Some projects may pit various communities within a state against each other or generate advantages for a neighboring state. Such spillover effects can undermine local support for projects that have national and interregional benefits if the projects are primarily paid for with local, public funds. One solution could be regional agency buy-in and payments or primary funding from a higher level of government. Still, major transportation projects, such as high-speed rail in California or airport improvements in Huntsville, Alabama, are undertaken for explicitly economic development goals.

ELECTRICITY AND TELECOMMUNICATIONS

Reliable and inexpensive electricity is critical to industrial activity, and states can attract industrial businesses by providing reliable access and price discounts. Because manufacturers

are generally the largest customers for power and electricity, it is no surprise that utilities work very closely with state and local economic development agencies. Telecommunication infrastructure, including Internet transmission, is traditionally a local issue, but states can play a role in providing infrastructure (e.g., grid enhancements and connectivity programs) and grants to local governments. The ability to quickly and efficiently make wired and wireless connections between employers and employees, contractors and vendors, and residents and government services can improve quality of life, reduce transaction costs, and make the marketplace more efficient.

EDUCATION INVESTMENT

States invest in every level of education from preschool (pre-K) to workforce training. Such investments not only help create a skilled (present and future) labor force, they also attract high-skilled workers with families. For many states, elementary and secondary education are the state's largest investments, but increasing attention is being paid to returns from investments in pre-K and higher education. States have moved aggressively to establish and fund early childhood programs to both prepare future students and assist their working parents.

Higher education investments also play a critical role in sparking new ideas, transferring knowledge throughout the community, and creating new markets and industries. Research universities not only generate ideas that can be commercialized but also concentrate highly skilled individuals, supplying the workforce for start-ups and attracting private investment.

Aligning Location Preferences with Economic Development Strategies

Although many states view tax incentives as their major strategy to attract firms, firms consistently rank investment in community infrastructure and workers as top priorities when selecting a site. In 2016, firms ranked highway accessibility as their number-one priority. States can choose to align their economic development investments with those firm location priorities.

Firm priorities, such as workforce skill and availability, for example, will ideally align with state and local workforce development initiatives, such as training and education programs. Priorities such as ready sites and infrastructure dovetail with state and local investments in public transportation, roads and bridges, and airport and highway access. The table below outlines top business site location factors and how they correspond to different types of non tax incentives and investments.

BUSINESS SITE LOCATION FACTOR	INVESTMENT STRATEGY
Ready sites	Community
Workforce skill and availability	Workers/community
Consumer demand	Marketplace
Infrastructure	Community
Quality of life	Community
Cost of doing business	Marketplace/community

Source: Economic Development Research Group, *Sources of Regional Growth in Non-Metro Appalachia Vol. 4: Economic Development Assessment Tools and Study Conclusions for Identifying Sources of Growth* (Washington, DC: Appalachian Regional Commission, 2007).

Note: Site location factors not ranked in order; edited by author from original for clarity and context.

“Significant federal and state monies will likely need to be invested in our existing highways, bridges, and other public infrastructure over the next decade to meet the needs of the current and projected corporate and residential demand.”

-CHARLES L. RUBY

Director, Deloitte Tax LLP, 2017, writing for *Area Development* on site selection factors.

Source: Charles L. Ruby, “31st Annual Survey of Corporate Executives Commentary: Highway Accessibility Tops List of Corporate Site Selection Factors,” *Area Development*, Quarter 1, 2017.

<http://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2017/highway-accessibility-tops-list-Charles-Ruby-Deloitte-Tax.shtml>

¹ For more information, see Norton Francis and Megan Randall, *State Economic Development Strategies: A Discussion Framework* (Washington, DC: Urban Institute, 2017). <http://www.urban.org/StateStrategies>.