

The Hidden Costs of Alabama's Tax Incentives

Secret Spending Amidst a Pandemic and Austerity

By Patricia Todd, MPA

Southern Policy Manager, Jobs to Move America



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The state of Alabama allocates untold billions of dollars in public money to already profitable corporations under the guise of promoting job creation. The allocation is conducted with little to no accountability or transparency. This report suggests, instead, avenues to implement economic development and incentives programs that center equity and seek transparency and accountability.

Recommendations and research presented is based on 1) data collected from convenience sampling of incentives legislation and regulation from Alabama and other states, 2) a literature review of economic tax incentives, public records, and news articles, 3) meetings and interviews with relevant stakeholders, including legislators, local agencies, policy think tanks, and 4) from semi-structured interview questions.¹

The report below begins with an overview of incentives intended to spur economic growth in many marginalized areas of the country. It concludes by employing mixed-methods to collect and analyze data, performing descriptive analyses of qualitative and quantitative data to offer a framework for equitable remedy of subsidies/incentives programs that impact Alabamians.

¹ J. Creswell, J and J. D. Creswell, *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*, 5th Edition (Thousand Oaks, CA: Sage Publications, Inc., 2018).

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FOREWORD

IT'S 2021, ALABAMA! WHERE ARE YOUR DOLLARS GOING?

By Kasia Tarczynska, Good Jobs First

The old Southern story goes like this: Giving companies tax breaks, grants, low-interest loans, and other economic development “incentives” will bring new vitality, jobs, and badly needed industry to a region.

However, an overwhelming body of research shows that subsidies are not a critical factor in determining where companies expand or relocate.²

Other factors like access to a skilled workforce, high-performing schools and community colleges, quality infrastructure, open spaces and cultural amenities, as well as proximity to customers and suppliers play far greater roles in where companies decide to invest. Yet, state and local governments across the United States continue to spend billions per year on corporate subsidies.

Alabama is no exception. Additionally, like several other states, it fails to meaningfully track what benefits taxpayers receive for the billions given to businesses to open or expand operations.³

² See, for example: Alan Peters and Peter Fisher, “The Failures of Economic Development Incentives,” *Journal of the American Planning Association* 70.1 (2004). (An online copy can be found at <https://www.mackinac.org/archives/2009/nr043009-petersfisher.pdf>); and Timothy J. Bartik, “‘But For’ Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?” Upjohn Institute Working Paper 18-289 (2018). <https://doi.org/10.17848/wp18-289>.

³ Philip Mattera et al., “Money-Back Guarantees for Taxpayers: Clawbacks and Other Enforcement Safeguards in State Economic Development Subsidy Programs,” Good Jobs First (2012), https://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneyback_0.pdf; Philip Mattera et al., “Money for Something: Job Creation and Job Quality Standards in State Economic Development Subsidy Programs.” Good Jobs First (2011), https://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneyforsomething_0.pdf.

What’s worse is that state mismanagement goes beyond the poor transparency we see in many other places. Former Alabama State Representative Patricia Todd knows all too well the secrecy in the state that shrouds these deals, and details how Alabama continues to hide even the most basic information related to these deals long after they are finalized.

As we at Good Jobs First have repeatedly documented, only scattered and selective information is available about a few of the state’s incentive programs.⁴ Nowhere can residents find a complete list of which companies are benefiting from state assistance, how much each company received, and whether they have met contractual obligations, like job creation. Tax incentive evaluations also do not include meaningful metrics to show if a subsidy program is working as intended.

Today, more than ever, to understand Alabama’s priorities, taxpayers need a clear picture of Alabama’s spending – especially expenditures given as tax abatements, exemptions, and credits. This focus is especially critical given that most states use tax breaks more frequently than direct grants to subsidize companies since tax-based subsidies tend to be less transparent than grants that must be appropriated and, thus, disclosed.

Hence, former Rep. Todd recommends: a Unified Economic Development Budget to reveal true spending priorities, online disclosure of the costs and benefits of individual subsidy deals, and an independent auditor to periodically evaluate subsidy programs. These are common sense

⁴ Philip Mattera et al., “Show Us the Subsidized Jobs: An Evaluation of State Government Online Disclosure of Economic Development Subsidy Awards and Outcomes,” Good Jobs First (2014), <https://www.goodjobsfirst.org/showusthesubsidizedjobs>. See also Good Jobs First’s Subsidy Tracker database for limited availability of Alabama subsidies in comparison to other states: <https://www.goodjobsfirst.org/subsidy-tracker>.

policies already embraced by many states and the best way forward for Alabama.

Large development projects do not happen in a vacuum. They create opportunity costs and force us to ask questions such as: “What else could state and local governments have done with those dollars?” New developments also bring new residents — and taxpayer costs — to an area. They require more classrooms, teachers, firefighters, public safety officers, garbage haulers, and highway construction. If corporations that create the increased demands do not contribute their fair share in taxes, two things usually happen: the quality of public services declines for existing residents and/or tax rates on everyone else will go up.

No matter your viewpoint or occupation, transparency is the cornerstone of clean, effective economic development. It allows elected officials, journalists, and the public at large to access basic information about how public dollars are being invested and distributed, which companies benefit (and which kinds of companies), and which neighborhoods get projects and which still lack investment. Transparency allows both for better scrutiny of deals before they’re made and allows for accountability afterwards. During more than 20 years of studying subsidies in economic development, Good Jobs First has never seen a case where transparency jeopardized the economic development of a state or harmed its “business climate.”

Disclosure of economic development agreements is on the rise. Most states provide at least some data on individual subsidy deals. Others go much further: Florida has a detailed database where the public can find information on subsidy recipients, cost, and number of jobs created. Mississippi publishes an annual incentive report that lists corporate beneficiaries of state grants and how much they received. Louisiana publishes an annual list of every company that benefits from a state-guided property tax abatement program, including estimated values of the abatements. Tennessee has a database of grant recipients

which includes jobs creation. North Carolina has one of the best disclosure systems in the country for its tax-based subsidies and grants.

It is 2021. Everyone should be able to access online information via government sources on how tax revenues are allocated in their communities. We hope Alabamians and their elected officials read this report and not only learn just how many deals are done behind closed doors, but also follow that realization up with a demand to change to this secretive system which prioritizes connected corporations and does little to help improve the lives of everyday residents.

EXECUTIVE SUMMARY

Alabama hands out millions of taxpayer dollars - with the intent of creating well-paying jobs and reducing unemployment - to manufacturers to set up or expand operations in the state. After serving 12 years in the Alabama House of Representatives and sitting on the Education Budget Committee, I continue to question the return on investment of those deals. While all states use economic tax incentives to lure companies to set up shop locally, a growing number of these incentive programs are facing scrutiny about lack of transparency and accountability to the taxpayers footing the bill. Alabama government officials, on the other hand, have done their best to hide information about these incentives and ward off public scrutiny.

Alabama taxpayers are left in the dark about even the most basic details of these deals. The state does not provide any transparency around which companies are receiving economic development incentives, how much they’re getting, how many jobs are created (or not) and at what wage level. These economic incentives agreements are also not reviewed by legislators and are exempt from open records requests, therefore, making it impossible to evaluate their effectiveness. This lack of transparency makes

Alabama one of the worst states in the country for disclosure of corporate subsidies.

This paper does not make the case against all economic tax incentives. Instead, it argues that the public has the right to know where tax dollars are spent and the impact, or lack thereof, of these deals on job growth and state expenditures.

Given what we know about tax incentives programs, corporations seem to have more power than people. Jobs to Move America believes we can do better. Elected officials, along with every Alabamian, deserve an independent evaluation of return on investment and access to details about the real cost of those programs on communities.

Through interviews with officials, literature review, and analysis of best practices developed by other states, this paper recommends the following policies for Alabama:

1. Have a Unified Economic Development Budget, which would include a comprehensive accounting of all economic development programs (tax-based, subsidies, grants, etc.). Louisiana and Kentucky have already adopted this budget model.
2. Hold annual public hearings on corporate subsidies so members of the public can ask questions and make recommendations.
3. Use a third party or independent legislative party to evaluate each incentive and provide a report on a public website that includes the amount of incentive, clawbacks, pay scale of workers, return on investment, and job outcomes. This will ensure accuracy and transparency and should occur every 3 to 5 years.
4. Provide robust information to the public about how return on investment is calculated. This should include impact on communities, workers, and current businesses.
5. Make all subsidy and incentive programs transparent and provide full access to the public to all information on the

subsidies and tax credits given, the terms of the deal, and the extent to which the recipient has fully complied with the terms of the subsidy agreement.

INTRODUCTION: ALABAMA'S CASE FOR INCENTIVES

"... Alabama's remarkable tax giveaways have not brought the state broad prosperity; indeed, it still has one of the nation's highest poverty rates – and one of the most regressive tax structures."⁵
<http://www.goodjobsfirst.org/states/alabama>

Alabama the Beautiful.

That was the saying on our car tags for years. Alabama is beautiful, from the white sand on our coastal beaches to the vast lakes and rivers that run through the state. But behind that beauty hide the ugly realities of poverty, sub-standard public education attainment, racial injustice, high incarceration rates, polluted rivers and land, and lack of affordable healthcare for many residents.

I served as a member of the Alabama House of Representatives from 2006 to 2018, representing some of the poorest neighborhoods in Birmingham where almost half of residents live below the poverty line. Most didn't have access to quality healthcare, adequate transportation, or good schools. During those 12 years, the majority party failed to raise the minimum wage of \$7.25 per hour, and even passed a law that restricted local governments from raising the minimum wage.⁶ In fact, the failures were extensive; they did not pass a Medicaid expansion that would have provided healthcare to over 200,000 Alabamians, solve overcrowding in our state prison system, invest in our public transit

⁵ "Accountable USA – Alabama," <http://www.goodjobsfirst.org/states/alabama>.

⁶ Jana Kasperkevic, "Alabama passes law banning cities and towns from increasing minimum wage," The Guardian, 26 February 2016, <https://www.theguardian.com/us-news/2016/feb/26/alabama-passes-law-banning-minimum-wage-increase>.

Case study

MERCEDES

“To lure the \$300 million plant, with about 1,500 jobs, the state promised to buy the site for \$30 million and lease it to Mercedes for \$100 a year. Surrounding communities will contribute an additional \$5 million each, and the University of Alabama will offer German language and culture classes to the children of plant employees. On top of this, the state will provide a package of tax breaks valued at more than \$300 million, which will, among other things, allow the plant to be paid for with money that would have been paid to the state.”⁷

⁷ Adam M. Zaretsky, “Are States Giving Away the Store? Attracting Jobs Can Be A Costly Adventure,” Federal Reserve Bank of St. Louis, <https://www.stlouisfed.org/publications/regional-economist/january-1994/are-states-giving-away-the-store-attracting-jobs-can-be-a-costly-adventure>.

systems, clean up toxic pollution that is killing wildlife and people in our state, adequately fund mental health services, or fund the Affordable Housing Trust Fund.

What I learned during my time in the state legislature is that Alabama’s leadership is doing things in exactly the wrong way. Rather than prioritizing and funding the services and infrastructure that our residents need to thrive, most of our elected leaders are giving billions of dollars in economic development tax incentives to highly profitable global corporations like Mercedes, Toyota and ThyssenKrupp, with few, if any, enforceable requirements that those companies even create jobs. As Alabama – and the United States – work our way out of a horrific pandemic, massive unemployment, and explosive poverty, we need a new strategy for creating good jobs that puts communities and people first.

HOW ALABAMA GIVES AWAY CASH WITHOUT ACCOUNTABILITY

Between 1993 and 2020, Alabama’s lawmakers gave away more than \$4 billion⁸ in public tax

⁸ “Alabama,” Subsidy Tracker: State Summary of State and Local Awards, Good Jobs First, <https://subsidytracker.goodjobsfirst.org/prog.php?statesum=AL>.

revenue to corporations in the form of corporate subsidies⁹. A corporate subsidy, also called an incentive in this report, is a general term for a governing body’s gift of money from state funds and state resources to a corporation, with the aim of enticing that corporation to set up or expand business operations. The public, and many policymakers, seem to be unaware of the cost and impacts of these programs.

According to the Alabama Governor’s website,¹⁰ Alabama’s corporate subsidies were explicitly designed with the goal of attracting new businesses and creating jobs into our state.¹¹ The underlying idea is that these new businesses produce new revenue streams, thousands of new jobs, better wages, and improved working conditions. Alabama’s lawmakers, corporate leaders, and foreign business leaders looking to do business in Alabama would like us to believe that state-sponsored corporate subsidies accomplish all the above.

From my research and experience over the years, I have found that subsidies come in many different forms and it is difficult to obtain information about them, even if you’re an elected

⁹ The Alabama Legislative Fiscal Office estimated the financial loss due to exceptions, credits, exclusion, discounts, and rate differentials.

¹⁰ “Job Creation,” The Office of Alabama Governor, <https://governor.alabama.gov/priorities/job-creation>.

¹¹ “Business Development Division,” <https://www.madeinalabama.com/business-development>.

official. For example, when Alabama wants to award a subsidy to a big company, the state often takes steps to purchase and develop the land for a company and then offers a long-term lease to the corporation for almost nothing. This usually happens through the local Industrial Development Board. The state will then use public resources – our tax dollars – to purchase the land and build the needed infrastructure to get the business up and running. It does this using the Department of Commerce Industrial Grants, Industrial Development Bonds, Infrastructure Grant Program, and the Alabama Industrial Access Road and Bridge Program.¹² The state then leases this government-developed property to a corporation at a reduced rate, and moreover, since the state of Alabama owns the property, the company is exempt from property taxes. If the company is building a new plant, Alabama might pay for the construction of access roads and connections to sewer, water, gas, and power lines.

Below are the main types of corporate subsidies in Alabama: tax-based incentives and workforce and development incentives. Each description includes specific examples of the specific subsidies that Alabama has created to attract businesses.

A) TAX-BASED INCENTIVES

Tax incentives, or tax breaks, are Alabama's preferred method of providing assistance to big business. This type of subsidy comes in the form of tax credits, deductions, refunds, and rebates. Once Alabama grants a corporation tax breaks, the corporation either doesn't pay taxes or pays a portion of what it would otherwise owe. Alabama offers tax-based incentives that last anywhere from several years to 20 or 30 years. Such foregone tax revenues are a huge drain on the public. A factory and its employees need ongoing support in the form of basic infrastructure – education, sewage, wastewater, roads, streetlights and social services – which now have

to be paid for with other revenue streams or remain unfunded.

Several forms of tax-based incentives exist that allow corporations to reduce or not pay taxes in Alabama:

1. **Income tax credit:** Income tax is used to pay for public education and government services. Various state income tax credit programs reduce the tax liability of these companies, so they don't pay their fair share of taxes and do not reinvest in the communities from which they profit. Only the non-education portion of the state income tax can be abated.
2. **Sales and use tax abatement:** Generally, sales and use taxes are used to pay for government employees' salaries and services. This kind of tax abatement exempts the company from paying sales tax on building materials, machinery, and equipment purchased within the state. Both state and local sales taxes can be abated. Alabama's state sales tax is currently four percent, and local sales tax can be as high as six percent. Under the Alabama Constitution, the local governments must abate the local taxes if the state abates the state sales tax. Therefore, when massive corporations that are granted abatements come to Alabama to build, manufacture, and sell their goods and services, the state and localities receive no tax revenue on many items the company purchases within the state. Again, only the non-education portion of the sales tax is abated.
3. **Property tax abatement:** Cities and counties approve property tax abatements by exempting or discounting property taxes for a set number of years or by lowering the assessed value of a project. With a property tax abatement, the corporation is exempt from paying the earmarked non-education annual property tax for 20 years

¹² "Taxes and Incentives," <https://www.madeinalabama.com/business-development/recruitment-and-retention/taxes-and-incentives>.

Specific tax-based incentives aimed at attracting manufacturing firms to Alabama include:

- **Income Tax Capital Credit:** state income tax credit of up to five percent of capital costs provided to companies annually for 20 years. This incentive reduces the income tax liability of the company when they are expanding or building a facility (Section 40-18-190 through Section 40-18-203, Code of Alabama 1975). The program ended in 2016, but because it was a 20-year tax credit, it will pay out until 2036.¹³
- **Growing Alabama Credit:** provides income tax credit for taxpayers who donate to economic development organizations. The credits equal 100 percent of the donation. The income tax credit reduces the tax liability for taxpayers by up to 50 percent (Section 40-18-410 through Section 40-18-416, Code of Alabama).
- **Enterprise Zone Program:** provides various state and local tax breaks to companies located within a zone and caps at \$2,500 per new permanent employee. Enterprise zones target areas with high unemployment and poverty rates (Alabama Incentives Modernization Act, Act 2019-392).
- **Investment Credit:** a tax credit of up to 1.5 percent annually of capital investment that can be taken for up to 10 years against income, utility or other taxes. This credit allows a company to reduce its tax liability when they are purchasing machinery, etc. (Alabama Jobs Act, Section 40-18-370 through Section 40-18-383 Code of Alabama).

B) WORKFORCE DEVELOPMENT AND TRAINING GRANTS

The state pays for customized training of workers at companies as another method of attracting big business. For example, the Apprenticeship Credit is an income tax credit of \$1,250 per employee participating in apprenticeship programs. Companies use this credit when they are training

¹³ Alabama Department of Revenue, "Income Tax Capital Credit," <https://revenue.alabama.gov/tax-incentives/major-tax-incentives/income-tax-capital-credit/>.

new employees. (Section 40-18-420 through Section 40-18-424, Code of Alabama 1975). The largest workforce development program in the state is AIDT,¹⁴ and they do not include details about project funding on their website.

C) LOAN AND GRANT PROGRAMS

Alabama also has several loan and grant programs to subsidize big businesses opening and expanding in the state. Even here, we see no method to hold companies profiting off of this "easy money" accountable.

For example, Alabama uses Certified Capital Companies (CAPCOs), a subsidy program created by Louisiana insurance lobbyists in the early 1980s.¹⁵ While the purpose is for the state to offer low-interest loans for companies headquartered in Alabama, they have become a way for insurance companies to generate easy money.¹⁶ This incentive program was reviewed by an independent evaluator commissioned by the Alabama Department of Revenue. The review found that the program failed in efficiency, economic impact, and accountability, stating: "the program entails relatively high costs and provides little market or fiscal return to the state." Many states have turned away from CAPCO-style arrangements, and the review finds that Alabama is "almost certainly better served to consider an entirely different approach to venture capital support."¹⁷

¹⁴ AIDT program site, <https://www.aidt.edu>.

¹⁵ "Big Giveaway Index," Good Jobs First, <https://www.goodjobsfirst.org/big-giveaway-index>.

¹⁶ Ibid.

¹⁷ Matthew N. Murray and Donald J. Bruce, "Evaluation of Alabama's CAPCO Credit and Historic Rehabilitation Tax Credit," Alabama Department of Revenue (January 2017), https://www.ncsl.org/Portals/1/Documents/fiscal/evaluation_database/Evaluation_of_Alabama_CAPCO_Credit_and_Historic_Rehabilitation_Tax_Credit.pdf.

MY FIGHT FOR TRANSPARENCY IN THE LEGISLATURE

After my election in 2006, then-Governor Bob Riley (R) called a special session of the legislature to debate raising the debt limit for the state's Capital Improvement Trust Fund by \$400 million. The increase would provide needed funds to grant \$195 million to the German steel company ThyssenKrupp to build a manufacturing plant in southern Alabama. Those of us who were just elected were not familiar with incentives and the state debt limit and did not receive adequate information to make a sound decision. Subsidies were not included in the budgeting process and there were no public hearings on the topic.

The Governor assured us that the incentive for ThyssenKrupp was necessary, so my colleagues and I approved the subsidy. Six years later, in 2012, ThyssenKrupp filed for Chapter 11 bankruptcy and later sold for \$1.55 billion dollars.¹⁸ Despite requests, legislators did not receive information about whether the incentives were recouped.

¹⁸ "ThyssenKrupp era ends in Alabama," https://www.fox10tv.com/news/thyssenkrupp-era-ends-in-alabama/article_b2b684b7-c93f-5f41-bf9d-272a8f753220.html.

ANALYSIS OF ALABAMA'S ECONOMIC DEVELOPMENT INCENTIVES

Lack of transparency

It's the digital age. We can Google anything. But we still can't find reliable information about Alabama's legal procedures and policies governing how, why, and how much money we hand out to giant companies on any Alabama government website. Only limited information on the cost of corporate subsidies is available in Alabama's recent Comprehensive Annual Financial Statements. According to those statements, Alabama lost nearly \$160 million in revenue to tax abatement programs in 2019.¹⁹

There is a dire lack of transparency and almost no accountability regarding the state's actions and disclosures when it comes to tax incentives and other subsidies. In 2014, Good Jobs First scored every state's top subsidy program on disclosure practices. At that time, Alabama

disclosed limited data on only one program: the Alabama Industrial Development Training. It scored just 16 out of a possible 100. Since then, even that disclosure has vanished. The Center for Public Integrity, a nonprofit that investigates abuses of power and corruption, rates Alabama's Open Records law a D+. Recent attempts to strengthen the Open Records law have stalled in the state legislature.²⁰

Tax breaks comprise a majority of the money provided through incentives; they are the least transparent and fail to be accounted for in the budget. Again, the state does not publish detailed information on who receives the subsidies and how much they receive.²¹

In 2018, the legislature passed Senate Bill 208, a law to require an evaluation audit of economic tax incentives every four years. However, it does not require a third-party evaluator, leaving the same agency providing the subsidy also conducting the evaluation.

This year, 2021, was the first time that a report was provided to legislators on the cost of incentives and

¹⁹ "Alabama 2020 Revenue Lost to Tax Abatement Programs," https://taxbreaktracker.goodjobsfirst.org/prog.php?state=AL&state_jurisdiction1=&state_jurisdiction2=&state_jurisdiction3=.

²⁰ <https://publicintegrity.org/politics/state-politics/alabama-gets-a-d-grade-in-2015-state-integrity-investigation-2/>

²¹ Legislative Services Agency Fiscal Division, "Report on Alabama Tax Expenditures," February 2020, http://lsa.state.al.us/PDF/Fiscal/TaxExpenditure/2020_TaxExpenditureReport.pdf.

number of applicants for each incentive program, but the report still excluded the names of the companies that received the incentives.²²

In the past year, the non-profit organization I now work for, Jobs to Move America, has made requests under the Alabama Open Records Act to obtain information about incentive agreements. The response that we have received to our numerous requests has been that the information is proprietary and confidential. We have sent several requests to municipalities, counties, and economic development boards, but because Alabama's Open Records Act does not require a deadline for providing the information, most entities can get by simply ignoring the request.

The Alabama Fiscal Office does issue an annual Tax Expenditures Report²³ that lists the total amount of tax exemptions, but only a limited number of subsidy programs and their costs are included in this annual document.

Many other states, including neighboring southern states, are moving to improve transparency and accountability in economic tax incentives. Mississippi has made major strides and is listed by Pew Charitable Trusts as one of the best states for subsidy program evaluation.²⁴ Their state government website has a page titled "Transparency Mississippi" with the statement "Transparency.ms.gov has been created to promote transparency in government and in spending." This website includes a link to Mississippi incentives publications, including the Mississippi Development Authority Annual Incentives Reports and Mississippi Comprehensive Annual Financial Reports.²⁵ Some southern states are even leading reform efforts on public access to government records. For example, Kentucky has developed a Public

Protection Cabinet with clear directions and rules on requesting public records.²⁶

Meanwhile, Alabama's Comprehensive Annual Financial Report²⁷ continues to only include the amount of incentives each program receives without any detailed information about the companies receiving these incentives or accountability mechanisms for purported job creation in the state.

Jobs created aren't good jobs

One of the main rationales for subsidies and tax incentives is that they will create jobs for residents. The reality is that we don't know if these subsidies are creating good jobs -- or any jobs for that matter. For example, when Jobs to Move America requested and received the incentives agreement provided to New Flyer (an electric bus manufacturer in Anniston, Alabama), it revealed that the company promised to add 12 new jobs, even though media coverage at the time of the subsidies reported that New Flyer was planning to create 21 new jobs.²⁸ In a follow up request to view reports on job creation during that period, Anniston responded to JMA that it does not report job creation.

According to Josh Moon from the Alabama Political Reporter,

"And God himself doesn't know how much we're handing out annually in corporate subsidies and straight cash to lure businesses to this state, but we do know that the incentive package for just one plant — the Toyota/Mazda plant near Huntsville — was more than \$871 million. Another package a few years ago cost the state more than a billion. There are dozens of other incentive packages paid out each year, but even though it's your money they're using, the public doesn't get to see those deals because

²² Legislative Services Agency, "Hearing on Economic Tax Incentive Reports," 29 January 2019, <http://lsa.state.al.us/PDF/Fiscal/BudgetHearings/2019/2019TaxIncentivesReportHearing.pdf>.

²³ Legislative Services Agency Fiscal Division, "Report on Alabama Tax Expenditures."

²⁴ PEW Charitable Trusts, "How States are Improving Tax Incentives for Jobs and Growth," May 2017, https://www.pewtrusts.org/~media/assets/2017/05/edti_how_states_are_improving_tax_incentives_for_jobs_and_growth.pdf.

²⁵ Transparency.MS.Gov, <http://www.transparency.mississippi.gov>.

²⁶ "Open Records," <https://transparency.ky.gov/accountability/Pages/openrecords.aspx>.

²⁷ State of Alabama, Comprehensive Annual Financial Report, 30 September 2020, <https://comptroller.alabama.gov/wp-content/uploads/2021/03/CAFR-2020.Alabama.pdf>.

²⁸ Anniston Star, March 8, 2017.

we've exempted the contracts from public records laws."²⁹

Since media coverage of groundbreaking on new factories usually lacks information on how much a company received through corporate subsidies and the requirements to which it must adhere, readers tend to only receive a positive viewpoint on "job creation."³⁰ But even in the case of successful job creation, we should still be asking whether these are good jobs – jobs that provide a living wage, high-quality health insurance, a work environment free from harassment or discrimination, safety training and resources, and a stated priority to hire people of color, formerly incarcerated individuals, the underemployed, and historically marginalized people.

None of the corporate subsidies provided in Alabama require companies to pay workers a living wage. In Alabama, a living wage for one adult is \$13.77. If that adult has one child, the living wage increases to \$27.06.³¹ The state incentive programs I reviewed have a wage provision of \$8 to \$10 per hour including benefits. The Enterprise Zone program has no wage provision whatsoever.

In fact, if a wage floor is included, it is \$10 an hour – nowhere near a living wage in any part of Alabama. The federal government recommends that a worker should not pay more than 30 percent of their income for housing costs, but this is the reality for too many Alabamians who are stuck in minimum wage jobs.

Everyone who wants a job should have one that's salary can support their family. Yet too often, I see companies that receive incentives not building up our communities

with good jobs. It's not right that public incentives generate huge corporate profits while workers

suffer low wages that cannot support their families let alone take a vacation or pay for higher education.

We need our state representatives to change the rules so that companies receiving tax incentives are held accountable to create good jobs that sustain the environment and our communities.

CONCLUSION: OVERALL IMPACT OF SUBSIDIES IN ALABAMA

Alabama is required to pass a balanced budget each year,³² so the state finances spending on big projects by selling bonds (i.e. taking loans). Repayment for the bonds is projected in the debt payments each year, which are added to future budgets. For example, Alabama's education budget for 2021 includes annual debt payment of over \$33 million dollars.

What is the result of Alabama's subsidy-heavy budget? Alabama ranks second to last among the 50 states in total tax collections. Because all state-sponsored subsidies come directly from taxpayer money, the state's generous handouts to corporations are doing more harm than good to the state and its residents.³³

²⁹ <https://www.alreporter.com/2020/04/16/opinion-there-is-plenty-of-money-to-expand-medicaid-also-lawmakers-just-dont-want-to/>

³⁰ John Sharp, "Airbus plans to add 275 jobs this year ahead of tariff deadline," AL.com, 9 January 2020, <https://www.al.com/business/2020/01/airbus-adds-275-new-jobs-ahead-of-tariff-deadline.html>

³¹ "Living Wage Calculation for Alabama," <https://livingwage.mit.edu/states/01>.

³² Amendment No. 26 of the Alabama Constitution of 1901, Section 213.

³³ PARCA, "How Alabama Taxes Compare 2020," <https://parcalabama.org/wp-content/uploads/2020/11/How-Alabama-Taxes-Compare-2020-Edition.pdf>.

ALABAMA AT A GLANCE

1. Alabama ranked 50th – last – in U.S. News & World Report’s 2019 education rankings, with Alabama students ranked next to last for math scores.
2. Alabama is one of the most polluted states in the U.S. It ranks 41st in U.S. News & World Report’s ranking of states with the least pollution. There are 255,186 children in the state living in dire poverty (16th most).³⁴
 - a. Child poverty rate: 23.8 percent (6th highest)
 - b. State poverty rate: 16.8 percent (7th highest)
 - c. 5.1 percent of our Alabama’s families report incomes below \$10,000 per year (6th highest)
3. Alabama ranks 36th in higher prevalence of mental illness and lower rates of access to mental health care.³⁵
4. Alabama ranks 7th in incarceration rates per 100,000 people.³⁶
5. Alabama ranks 6th for the worst state for job hunting based on employment opportunities and job market strength.³⁷

³⁴ Children’s Defense Fund, “Child Poverty Tables,” <https://www.childrensdefense.org/policy/resources/soac-2020-child-poverty-tables>.

³⁵ Mental Health America, “Overall Ranking,” <https://mhanational.org/issues/ranking-states#overall-ranking>.

³⁶ Laura M. Maruschak and Todd D. Minton, “Correctional Populations in the United States, 2017-2018,” U.S. Department of Justice (August 2020), <https://bjs.ojp.gov/content/pub/pdf/cpus1718.pdf>.

³⁷ Adam McCann, “2021’s Best and Worst States for Jobs,” WalletHub, 9 June 2021, <https://wallethub.com/edu/best-states-for-jobs/35641>.

Our state hides critical information that Alabamians and policymakers need to assess the full impact of subsidies on our economy and residents. We must look at the bigger economic picture. Alabama is proud of its low tax rates. Our property taxes are among the lowest in the country and our income tax is lower than many of our Southern neighbors.³⁸ But there is a downside to lower tax rates: the lack of adequate revenue has prevented our state from investing in public services and infrastructure that allow communities to prosper. Our low tax rate is directly related to our state’s failing mental health and public education systems, not to mention chronic under-investment in the most basic infrastructure necessary for human life, such as water treatment, sewage systems, and the clean-up of toxic waste.³⁹

Alabama ranks in the bottom tier of states when it comes to education, public health, and affordable

³⁸ Katherine Loughead, “State Individual Income Tax Rates and Brackets for 2020,” Tax Foundation, 4 February 2020, <https://taxfoundation.org/state-individual-income-tax-rates-and-brackets-for-2020/>.

³⁹ <https://www.nytimes.com/2020/11/14/opinion/sunday/coronavirus-poverty-us.html>

healthcare. Our teachers are under-paid, and our poverty rate is higher than the national average. We have a regressive tax system that requires lower paid workers to pay a larger percentage of their income in taxes, and we are a “right-to-work” state that makes it almost impossible to form a union in the workplace. When workers are represented by a union they are paid more, have better workplace protections, and do not have to fear retaliation if they report a safety violation or discrimination.

Corporate subsidies appear to be doing their job at lining the pockets of well-connected companies, but little to help residents who need well-paying jobs, well-resourced schools, and access to safe infrastructure. Taxpayers deserve to have a full accounting of the billions they give away.

By demanding more transparency and accountability around corporate subsidies, Alabama can improve the economic well-being of all families and workers. Alabama lawmakers should pass laws that improve public access to

subsidy contracts and financial impact on state revenues. During my last term in the legislature (2018), three of my fellow Education Budget Committee members agreed with me that we needed more transparency to understand the full economic impact of the incentives.

In *For Your Own Good: Taxes, Paternalism, and Fiscal Discrimination in the Twenty-First Century*, economists Adam J. Hoffer and Todd Nesbit found that,

“In 1984, ten years before the first major auto plant investment in Alabama by Mercedes, the unemployment rate in the state was consistently higher than the national average. Alabama then attracted Honda in 1998, Toyota in 2001, and Hyundai in 2002. In 10 of the 18 years after the Mercedes expansion, the state unemployment rate was higher than the national average. In only eight of the post-Mercedes years did the state unemployment rate drop below the national average (we exclude the year of the announcement).”⁴⁰

Alabama officials regularly tout the state’s low unemployment rate as evidence of the health of our state economy.⁴¹ But unemployment is both misleading and is only one measure of a state’s economy. The unemployment rate only counts individuals who are unemployed but are still part of the labor force because they are looking for work. It does not include people who are not in the labor force, or who have not looked for work in the past four weeks. Real unemployment numbers are much higher. Other indicators such as the poverty rate provide a much better picture of how most Alabamians are doing. Alabama’s poverty rate is almost 16 percent, 5 percent higher than the national average of 11 percent. Median income level is another indicator of well-being, and according to the U.S. Census Bureau, Alabama’s per capita income is \$27,928 and

household median income is \$50,536 – far below the national average of \$62,843.

Alabama’s Black Belt is a prime example of an area facing extreme poverty. Named for the dark dirt that was once home to a thriving farming community, the Black Belt is home to crumbling sewage infrastructure and an almost nonexistent job market.

In 2019, AL.com reported that a United Nations official responsible for investigating poverty toured Alabama’s Black Belt and reported that the area was suffering from the “most dire sewage disposal crisis of any place he has visited in a developed country.”⁴²

According to the U.S. Census Bureau, the poverty rate in Lowndes County (part of the Black Belt) is 27 percent; the county is considered one of the poorest areas in the country. The pandemic has exacerbated an already dire situation, as Lowndes County residents now face a severe lack of available jobs, no hospital, and one of the highest COVID infection rates in the state.⁴³

Alabama does not collect or allocate appropriate financial resources to address state residents’ needs. Many of the issues we face as a state have been discussed for decades, and most elected officials have yet to offer any lasting solutions. In my time as a legislator, I witnessed a lack of leadership and unwillingness to allocate resources to some of the most basic services, including access to mental health services, increasing teacher pay and reducing classroom sizes, and adequate training to support prisoners getting jobs after they have served their time. With only 30 legislative days each year, it was impossible to resolve all of these issues. Instead, the problems spilled over from year to year with little improvement.

⁴⁰ Peter T. Calcagno and Frank Hefner, “Economic Development Tax Incentives” A Review of the Perverse, Ineffective, and Unintended Consequences,” *In you’re your Own Good: taxes, paternalism, and Fiscal Discrimination in the Twenty-First Century* (2018), https://www.mercatus.org/system/files/chapter_10-rev.pdf.

⁴¹ “Job Creation,” <https://governor.alabama.gov/priorities/job-creation/>.

⁴² Connor Sheets, “UN poverty official touring Alabama’s Black Belt: ‘I haven’t seen this’ in the First World,” AL.com, 8 December 2017, https://www.al.com/news/2017/12/un_poverty_official_touring_al.html.

⁴³ Ramsey Archibald, “Coronavirus rates per capita for every Alabama county,” AL.com, 12 May 2020, <https://www.al.com/news/2020/05/coronavirus-rates-per-capita-for-every-alabama-county.html>.

Case study

MEGADEALS

According to a 2019 updated list by Good Jobs First of “megadeals” – or a transaction valued at \$50 million or more in which the state offers economic incentives to a corporation in exchange for setting up a business – Mazda-Toyota has been awarded \$900 million.⁴⁴ Information about employment, agreements, and other details that should be available to the public is not available for this megadeal. Good Jobs First found that, “about \$395.2 million will come from the state: \$200 million in site preparation, \$20 million in cash corporate subsidies, \$50 million in construction sales tax abatements, and \$125 million for training costs. Huntsville will provide \$320 million in property tax abatements (\$107 million over 20 years), land, and infrastructure improvements. Details on the remaining subsidies were not reported, including those from the Tennessee Valley Authority. Important to note that \$270 million of the package will be provided to the Company before production begins.”

⁴⁴ Toyota-Mazda” Subsidy Tracker Individual Entry.

POLICY RECOMMENDATIONS

There is a growing movement to examine the corporate subsidies approval process and their impact on Alabama. In 2017, the Alabama Department of Revenue commissioned the University of Tennessee to conduct a report on the state economic tax incentives. It concluded:

“The state should rigorously evaluate its current incentive policy to determine how effective it is in meeting the state’s goals and needs; new procedures should be designed carefully, and an evaluation apparatus and mandate should accompany adoption. Policymakers should recognize that tax incentives are just one tool to promote economic development. [...] Consideration should be given to the use of tax and expenditure policies as alternatives to tax incentives. Alternatives can be evaluated based on strengths and weaknesses, including the relative return on investment. Together this information can be used to make better choices on the use of scarce public sector resources.”⁴⁵

⁴⁵ Matthew N. Murray and Donald J. Bruce, “Best Practices for the Design and Evaluation of State Tax Incentive Programs for Economic Development,” Alabama Department of Revenue (January 2017), https://revenue.alabama.gov/wp-content/uploads/2017/05/TaxIncentives_BestPractices20170104.pdf.

For the public and policymakers to understand the impact of subsidies, we need to understand how incentives are approved and how return on investment is calculated. Policymakers would benefit from full disclosure and make more responsible financial decisions regarding allocation of limited state resources.

Economic incentives can be a useful tool in job creation, but we need to have more information to determine their impact on local communities and workers. We also need to hold companies accountable to promises they make to the taxpayers of Alabama, including promises about the number and types of jobs created, equal access to those jobs, and the wages and benefits promised for those jobs.

Many states have adopted measures to improve accountability in economic tax incentives. Alabama should join them and implement similar procedures.

The following recommendations are based on responses from semi-structured interviews and data obtained from convenience sampling. Hence, our findings serve as a framework to begin a discussion of subsidy transparency and accountability.

Jobs to Move America recommends:

1. Having a Unified Economic Development Budget, which would include a comprehensive accounting of all economic development programs (tax-based, subsidies, grants, etc.). Louisiana and Kentucky have already adopted this budget model.⁴⁶
2. Holding annual public hearings on corporate subsidies so the members of the public can ask questions and make recommendations.
3. Hiring a third party or independent legislative party to evaluate each incentive and provide a report on a public website that includes the amount of incentive, clawbacks, pay scale of workers, return on investment and job outcomes. This will ensure accuracy and transparency and should occur every 3 to 5 years.
4. Providing robust information to the public about how return on investment is calculated. This should include impact on communities, workers, and on current businesses.
5. Making all subsidy and incentive programs transparent and providing full access to the public to all information on the subsidies and tax credits given, the terms of the deal, and the extent to which the recipient has fully complied with the terms of the subsidy agreement.

⁴⁶ Good Jobs First, "Model Legislation for Accountability in Economic Development: Unified Economic Development Budget," https://www.goodjobsfirst.org/sites/default/files/docs/pdf/GJF_model_UEDB.pdf.

Jobs to Move America is a strategic policy center that works to transform public spending and corporate behavior using a comprehensive approach that is rooted in racial and economic justice and community organizing. We seek to advance a fair and prosperous economy with good jobs and healthier communities for all. Learn more and join our mailing list at jobstomoveamerica.org.

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