

4. Tax Policy, Subsidies, and Innovative Business Investment in Alabama

PAST AND PROSPECT

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EXECUTIVE SUMMARY

Alabama has in recent years taken affirmative steps in updating its business tax code through a series of transformative pieces of legislation, while also establishing new incentives for innovative business investment. The legislation most notably includes the Alabama Jobs Act of 2015, the Alabama Incentives Modernization (AIM) Act of 2019, and H.B. 170, H.B. 192, H.B. 540, and H.B. 609 in 2021. The last two of these measures notably establish the Alabama Innovation Corporation and add matching grant programs for small businesses.

This report provides initial analyses of the effects of these legislative measures. For the Alabama Jobs Act, in effect since 2015, we perform quantitative analysis of employment changes within Alabama as compared to neighboring states. For the AIM Act, we examine whether it has lived up to some of its stated goals with a focus on census tract selection, and consider whether focusing on these census tracts will be useful for future legislation. For the newer legislation, we provide discussion based on the experience of other states and existing research.

Based on these analyses, we provide specific recommendations that we strongly believe will build on the momentum of the recent tax legislation. They are as follows:

1. Simplify the tax code by replacing some of the existing, specific tax incentives with broader cuts in the corporate tax rate and sales tax rates; the remaining incentives should generally be simpler, shorter duration, and highly targeted;



2. Provide the Alabama Innovation Corporation with guidance and rules similar to those used by Launch Tennessee in its INCITE Co-Investment Fund and Impact Fund, which match private investment in companies seeking to move to Tennessee;
3. Encourage the state to consider an amendment to the AIM Act allowing public pension funds to replace the “state funds” guarantee of downside losses with some degree of co-investment from the future Alabama Innovation Fund specified in H.B. 540;
4. Address business broadband concerns in rural areas by extending broadband into these areas contingent on business investment into these areas.

Introduction

Across the country, states are constantly looking to modernize and attract new streams of investment in the technology sector and other innovative sectors. In Alabama, the governor has signed into law major pieces of legislation that have significantly altered the state’s economic incentives to attract new business.

State and local governments each year distribute around \$50 billion of targeted place-based incentives.¹ Yet assessing the efficacy of these subsidies in actually attracting business is challenging. Dr. Timothy Bartik of Michigan’s Upjohn Institute, perhaps the country’s leading economic researcher on targeted business incentives, names this the “but for” problem: when one observes companies moving to a state that take up tax subsidies or other incentives, it is difficult to know how much of that activity would have moved to the state anyway, even if tax incentives had not been offered.

Observers might point out that certainly the tax incentives didn’t hurt—yet some critical commentators have used a hunting metaphor to describe this as a “shoot everything that flies, claim everything that falls approach.”² The issue is cost of the ammunition. First, there is explicit cost of the incentive and the opportunity cost of having a different tax system that might bring in the same or more revenue. Second, there is an “opportunity cost” of not having an alternative tax system, one that has a low headline rate and broad base (meaning relatively few special credits and deductions to attract firms).³

Much research in fact suggests that incentive-based approaches are largely ineffective in achieving their intended goals. Bartik’s main conclusion is that nationally, three-quarters of incentives do not matter, in the sense that the companies would have taken action and made the same moves anyway without those incentives.⁴ Dr. Nathan Jensen of the University of Texas studied Texas incentive offerings and stated to the *Wall Street Journal* that “numerous companies [in Texas] applied for incentives after they had already broken ground and, in some cases, after they had completed building. . . . Yet all of these companies received taxpayer dollars for doing what they would have done anyway.”⁵

Alabama could be susceptible to such issues. It has taken an approach with relatively high headline tax rates for corporate income and sales tax that also apply to business inputs, and then offsetting these tax burdens with tax incentives for new companies. The Tax Foundation, a think tank based in Washington, DC, ranks Alabama 41st in the country on its overall state business climate as represented by its headline tax rates and the transactions they apply to, but it separately rates Alabama 4th in the country in business incentives.⁶

The existing research suggests that the optimal approach is having a broader tax base with lower headline rates for all. We were not for this report able to obtain Alabama Department of Revenue data on the specific tax incentives taken up by individual firms, so as such we cannot say that Alabama's targeted incentives follow the patterns documented in other states. We do, however, find that the evidence that the Alabama Jobs Act changed employment in Alabama relative to neighboring states is quite limited. The Jobs Act did not seem to generate a discernably different effect on targeted counties relative to nontargeted counties. Our findings also do not provide support for using the opportunity census tract designation as focal areas for future programs. With an understanding that the state may still prefer the current approach with relatively high headline rates and a wide array of incentives, the existing research points to the need for simpler, shorter duration and broader incentives to include smaller businesses in the event a state chooses that direction.⁷

Although legislative change is often necessary, governments must be careful to monitor how those changes are impacting the wider economy. Thus, though many of these pieces of legislation are relatively new, it is important to take note of the initial impact of the changes to determine whether or not the current legislation is sufficient or if changes need to be made. In this report, our intention is to provide specific analysis with respect to how these changes are doing in achieving their stated goals. First, we will provide a brief background of the current state of Alabama's tax policy and how it stands relative to other state tax regimes. We will then provide some initial analysis on the two major changes to state tax law: the Alabama Jobs Act of 2015 and the AIM Act of 2019. Finally, we will provide some key takeaways from these analyses and provide specific recommendations.

The Current Landscape for Taxation in Alabama

Overview of Alabama Tax Environment Today

When assessing Alabama's standing with respect to its tax system relative to the rest of the country, the results are quite mixed. The Tax Foundation's *2021 State Business Tax Climate Index* offers a less than favorable view of Alabama's tax policy, ranking the state 41st in its most general index. This index analyzes five key taxes—individual income tax, sales tax, corporate income tax, property tax, and unemployment insurance tax—and produces a



ranking based on tax structure, complexity, and rates. With respect to Alabama, the analysis reveals middle-of-the-pack corporate tax and individual tax policies and above-average property tax and unemployment insurance tax rates. Perhaps the most salient point is Alabama's high sales tax, ranked 50th among US states. This is due to both a high level of the rate, with Alabama's combined state and average local sales tax at 9.22 percent (the state tax of 4 percent is in the middle of the pack), and a suboptimal structure related to the large extent to which business inputs are included in the tax base.⁸

Regardless of how close Alabama's tax policies are to an "optimal" structure, individual firms are likely more focused on the actual tax burden they will pay. This is the root of the Tax Foundation's *Location Matters 2021* report, which provides multiple key insights about Alabama's tax policy. The report traces eight "model firms," creating example companies and calculating what the tax bills would actually be for these model firms if they were located in each state. Tax burdens vary significantly by firm, as different companies are affected more or less by each major type of tax and its particular structure.

The Tax Foundation's review reveals several key points for Alabama. Alabama is ranked in the best five states for taxes paid by new firms. Tax incentives for new firm creation significantly decrease tax burdens across the economy. However, the state ranks in the middle of the pack for existing firms. Firms with a longer-term view therefore may appreciate the lower "sticker price" for headquartering in the state, but they see a less rosy picture down the road as time passes or as expansions are considered. Of particular note, the state's policies result in the highest tax burden in the country on mature R&D facilities, largely due to the sales tax Alabama levies on manufacturing machinery and R&D equipment. Other businesses such as distribution centers or shared service centers benefit from Alabama's property tax structure. The state should be aware of how existing tax policy creates tax burdens on individual types of firms.⁹

While the Tax Foundation may have a less than optimistic view on Alabama's taxation system relative to the rest of the country, it is important to quantitatively assess the results of the legislation rather than rely on a single ranking. The ideal way to do this would be with data from the Alabama Department of Revenue that identifies which firms actually take up which tax credits, analysis we would be happy to conduct if given access. In the absence of that, we rely on county-level and census tract-level data from national statistical data sources to study the impact of the legislation.

Analytic Findings

Alabama Jobs Act of 2015

To assess the efficacy of the Alabama Jobs Act, it is important to observe overall job growth in Alabama to determine whether the state had statistically improved in the years following

Table 1. Alabama counties versus non-Alabama counties employment growth, difference in difference around the Alabama Jobs Act of 2015

	<i>Pre-period</i> 3/2011–3/2015	<i>Post-period</i> 4/2015–4/2019	<i>Change in growth rates</i>
Alabama counties			
Average change	0.0812%	0.1249%	0.0436%
Standard error	0.0209%	0.0134%	0.0218%
Non-AL neighboring state			
Average change	0.1847%	0.2084%	0.0237%
Standard error	0.4011%	0.3232%	0.0119%
Difference in difference	-0.1035%	-0.0835%	0.0199%
Standard error	0.0517%	0.0418%	0.0100%

the passage of the bill. One way to estimate the benefits of the Alabama Jobs Act is through the use of a difference-in-difference (DiD) technique. In this approach, the researchers observe two different populations: one that is directly impacted by newly passed legislation (the intervention group) and one that is not (the control group). Comparing the evolution of employment in treated counties (e.g., Alabama counties) to those in nontreated counties (e.g., similar counties in other southeastern states) before and after the treatment reveals the effect of the legislation.

Alabama Counties versus Non-Alabama Counties In our first set analysis, we looked at changes in employment in Alabama counties and in counties belonging to states neighboring Alabama. The latter figures were the aggregate averages of all of the counties in Georgia, Florida, Mississippi, and Tennessee. For the purposes of our analysis we defined our pre-period as March 2011 through March 2015, right up until the passage of the Alabama Jobs Act, and the post-period as April 2015 through April 2019. The results of our initial analysis are captured in table 1.

According to this analysis, the difference between the employment growth of Alabama and that of non-Alabama counties was higher after the Alabama Jobs Act but by a very small margin, only 0.0199 percent. To translate this magnitude into an intuitive statistic, consider that in March 2015, private employment in Alabama was 1.467 million people. If the private economy labor market grows at the Alabama post-period monthly rate of 0.1249 percent over four years, it would increase in size by 90,581 jobs over that time period due to economic growth for all reasons (whether related to the incentives or not). Growing 0.0199 percent slower would mean that private employment would have grown to only 75,946 jobs, a difference of 14,635 jobs.



Table 2. Alabama versus neighboring states regression results for employment growth, difference in difference around the Alabama Jobs Act

Variables	No month-fixed effects		Month-fixed effects	
	Unweighted regression coefficient	Weighted regression coefficient	Unweighted regression coefficient	Weighted regression coefficient
Pre- and post-period	0.0237 (0.0227)	-0.0086 (0.0130)		
Alabama county	-0.1035* (0.0288)	-0.1222* (0.0253)	-0.1035* (0.0288)	-0.1213* (0.0253)
Alabama × post	0.0199 (0.0337)	0.0312 (0.0258)	0.0199 (0.0865)	0.0304 (0.0259)
Constant	0.1847* (0.0200)	0.2401* (0.0114)	-1.1021* (0.1679)	1.6000* (0.2062)
R ²	0.01	0.06	4.72	29.33
Observations	45,590	45,590	45,590	45,590

* $p < 0.001$

The initial analysis above would therefore point to an effect of 14,635 jobs over four years due to the credits—yet this does not say anything about statistical significance or, in rough terms, whether it might just be “noise” in the data. To check the statistical significance of this result, we regressed the growth rates weighted by county employment levels onto two indicator variables—one that accounted for whether the growth rate took place during the pre- or post-period and another that indicated whether or not the county was within Alabama or out of state—and an interaction variable that indicated if the growth rate fell both within the post-period and within Alabama. This third variable serves as the difference-in-difference estimator.

Table 2 shows the results. The 0.0199 percent monthly effect is replicated in the first column, yet as seen here it is not statistically significant to any appropriate degree of confidence. Under standard asymptotics, the 95 percent confidence interval is plus or minus two standard errors from the mean of 0.0199 percent, where here the standard error of 0.0337 is in fact quite a bit larger than the estimate itself. Thus, the statistical analysis does not reveal a statistically detectable effect of the Alabama Jobs Act on employment.

The regression analysis also allows undertaking other specifications, such as weighting by county employment and including month-fixed effects instead of a simple pre-post indicator. Our interaction variable (Alabama × post) expressing growth rate changes in Alabama counties in the period after the passage of the Alabama Jobs Act shows that Alabama counties during this period grew on average 0.0199 percent and 0.0312 percent (unweighted and weighted, respectively) faster for regressions without month-fixed effects and 0.0199 percent and

Table 3. Alabama targeted versus nontargeted counties employment growth, difference in difference around the Alabama Jobs Act of 2015

	<i>Pre-period</i> 3/2011–3/2015	<i>Post-period</i> 4/2015–4/2019	<i>Change in growth rates</i>
Alabama targeted			
Average change	0.0692%	0.1236%	0.0544%
Standard error	0.0290%	0.0286%	0.0272%
Alabama nontargeted			
Average change	0.0884%	0.1256%	0.0372%
Standard error	0.0283%	0.0285%	0.0186%
Difference in difference	–0.0193%	–0.0021%	0.0172%
Standard error	0.0096%	0.0010%	0.0086%

0.0304 percent (unweighted and weighted, respectively) faster for the regressions with month-fixed effects when compared to neighboring state counties during the post-period. However, their standard errors are quite large and once again these results are not statistically significant.

Alabama Targeted Counties versus Alabama Nontargeted Counties In addition to looking at Alabama counties versus non-Alabama counties, we wished to assess the degree to which the Alabama Jobs Act was able to create a greater degree of job growth in targeted counties relative to nontargeted counties. We followed the same procedure as we did in the prior analysis, and we used the same time frames for both pre- and post-periods. The results are shown in table 3.

According to this analysis, there was an excess positive growth figure in targeted Alabama counties, besting the nontargeted counties by 0.0172 percent, of roughly similar magnitude to the results in table 1. A similar regression to check for statistical significance can then be run by regressing growth rates weighted by employment levels onto two indicator variables—one that accounts for whether the growth rate took place during the pre- or post-period and another that indicates whether or not the county was targeted by the Alabama Jobs Act—and an interaction variable. Table 4 shows these results.

Our interaction variable point estimates (Alabama targeted county \times post) expressing growth rate changes in Alabama targeted counties around the passage of the Jobs Act relative to nontargeted counties would suggest that Alabama targeted counties on average grew 0.0172 percent and 0.0169 percent (unweighted and weighted, respectively) faster during the post-period for regressions without month-fixed effects and 0.0172 percent



Table 4. Alabama targeted versus nontargeted regression results for employment growth, difference in difference around the Alabama Jobs Act

Variables	No month-fixed effects		Month-fixed effects	
	Unweighted regression coefficient	Weighted regression coefficient	Unweighted regression coefficient	Weighted regression coefficient
Pre- and post-period	0.0372 (0.0323)	0.0218 (0.0235)		
Alabama targeted county	-0.0193 (0.04015)	-0.0171 (0.0369)	-0.0193 (0.0405)	-0.0167 (0.0335)
Alabama targeted county × post	0.0172 (0.0514)	0.0169 (0.0453)	0.0172 (0.0517)	0.0175 (0.0459)
Constant	0.0884* (0.0289)	0.1188* (0.0239)	-1.569* (0.2694)	-1.8966* (0.3176)
R ²	0.02	0.01	14.81	40.51
Observations	6,499	6,499	6,499	6,499

* $p < 0.001$

and 0.0175 percent (unweighted and weighted, respectively) faster for the regressions with month-fixed effects when compared to Alabama nontargeted counties. However, the standard errors around these estimates are again extremely large, and we therefore once again do not find statistically significant results.

Key Takeaway Overall, there is no statistically robust evidence that Alabama counties outperformed neighboring state counties or that targeted Alabama counties outperformed nontargeted Alabama counties. Based on our initial evidence of the incentive-based approach taken in the Jobs Act as well as the aforementioned literature on incentive-based programs, we believe that these results call into question how useful any new or additional jobs credit programs would be.

Alabama Incentives Modernization (AIM) Act

Since the AIM Act only passed in 2019, it is difficult to ascertain the degree to which the policy has either positively or negatively impacted Alabama. However, one area we can view more closely is the issue of census tract selection and whether the state has chosen census tracts that align with the spirit of the federal government's goals with the Opportunity Zone (OZ) designation: enriching both rural and urban areas that have historically struggled to obtain significant private investment.

To do this, we used the US Census Bureau's American Community Survey data set, which includes data on a number of demographic dimensions; however, for the purposes of this analysis we focused specifically on household income.

Designation of Census Tracts When choosing census tracts, a state must designate 95 percent of its OZ tracts as census tracts that are defined as “low-income communities” (LICs). An LIC is defined by the US Department of the Treasury as a census tract with a poverty rate of at least 20 percent or a median family income 80 percent or less than the area it is benchmarked against (metropolitan area for metropolitan tracts, state for rural tracts).¹⁰ The remaining 5 percent of tracts that can qualify are tracts that are contiguous to an LIC.

Of Alabama’s 158 OZ tracts designated, 152 are LICs and the remaining tracts are considered contiguous tracts. However, while 152 LICs were selected, a remaining 477 tracts qualified as LICs but were not selected.

To analyze selection, we determine how many of the LICs selected fell below the 25th percentile of Alabama incomes and how many of those LICs not selected fell beneath the 25th percentile of Alabama incomes. We then compared the proportion of LICs selected in the bottom 25th percentile of state incomes to all fifty states and derived a ranking.

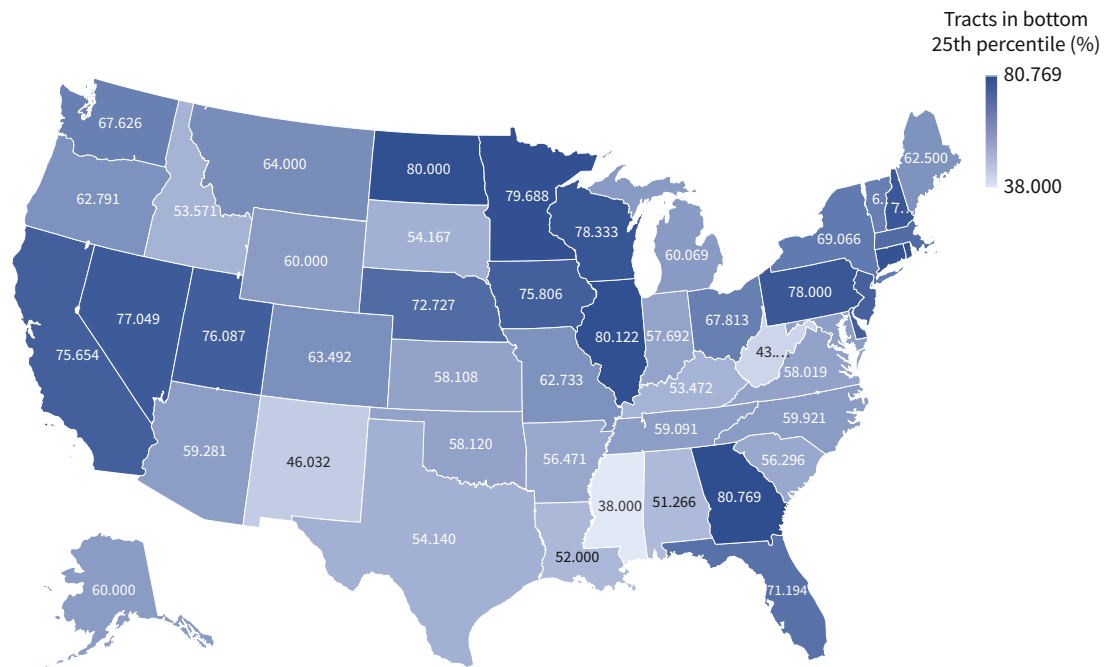
Of Alabama’s 158 selected OZ tracts, 81 tracts (all LICs) fell beneath the 25th percentile, giving a proportion selected beneath this threshold of 51.3 percent. However, of the 477 LICs not selected, 204 LICs fell beneath this threshold. The 51.3 percent proportion ranked the 4th worst across all fifty states and Washington, DC (see figure 1).¹¹

These results could have occurred for a number of reasons. One possible explanation could be that these census tracts simply provided better opportunities for investment, as they may have had better environmental factors that made them primed for economic growth. That said, recent evidence suggests that potential bias around selection largely hinges on the presence (or lack thereof) of a formal process in selection. In a recent paper, researchers found that on average, tracts with the same political affiliation of the governor are 7.6 percent more likely to be selected as Opportunity Zones. However, this percentage varies significantly depending on the type of process in place for selection. More specifically, the magnitudes range from 0.0 percent for states that used professional advisors to a whopping 25.6 percent for states with no formal process in place.¹²

We cannot provide any specific reasons for the low proportion of LICs selected that are in the bottom 25th percentile relative to other states because we do not know the full details of the application process. But we do know that every county was guaranteed an opportunity zone (OZ) up front regardless of county differences. We want to note that this may be something worth reconsidering in the event of re-designation of OZs. In addition, we hope that this overall analysis may be helpful when considering the utility of using OZ designations as a proxy for the *most* disadvantaged census tracts in any prospective legislative actions.



Figure 1. Percentage of tracts in the bottom 25th percentile



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Source: US Department of Census American Community Survey and authors' calculations.

Recommendations and Ideas for Implementation

Simplification of the Tax Code

Following the lead of neighboring states, the Alabama Jobs Act primarily aimed to create a jobs credit for businesses. In total, the Jobs Act originally created three types of credits:

- A jobs credit, structured as a cash rebate of up to 3 percent annually of the previous year's gross payroll (not including fringe benefits) for eligible employees for up to ten years.
- Investment tax credit of up to 1.5 percent annually of the qualified capital investment for a qualifying project for up to ten years.
- An additional 1 percent job credit for companies located in targeted counties with fewer than 25,000 people.¹³

While these were the main tenets of the legislation, a number of other rules governed additional areas of the bill. For example, companies that employ at least 12 percent of their

workforce as veterans qualify for a bonus 0.5 percent job credit. The Jobs Act also provides property tax abatements under certain circumstances.¹⁴

Although these rules and changes can hypothetically provide much-needed relief for businesses considering relocation, rules of this sort are often cumbersome and costly for small- to medium-sized businesses to navigate, a fact that may partly explain the weak results found in the previous section.

With this in mind, we recommend supplementing or replacing industry and firm characteristic-specific incentives and credits with broader-based business tax cuts such as reductions in the corporate income tax rate.

Co-Investment Guidance for the Alabama Innovation Corporation

This past May, Governor Kay Ivey signed H.B. 540 and H.B. 609 into law, establishing the Alabama Innovation Corporation (AIC). Under the current text of the bill, the AIC will match funds to federal Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) awardees to help “identify policies that will promote entrepreneurship, innovation, and related opportunities in the State of Alabama.”¹⁵

There is some research on these types of grant-matching schemes, and the current literature appears to indicate that at the very least it is unclear whether there is any evidence of positive benefits. Albert N. Link and John T. Scott find no statistically significant employment growth directly related to SBIR funding.¹⁶ Further, Scott Wallsten is critical of the SBIR program’s ability to spur innovative activity, as these grants may be subsidizing projects with potentiality for social good but are not viable for private investors.¹⁷

Knowing that these drawbacks exist, we recommend careful oversight over the selection of these projects. Assessing the likelihood of financial viability by adding qualifying requirements for matching funds should remain the top priority when the AIC is choosing such projects.

In addition to the AIC, the bill establishes the Alabama Innovation Fund (AIF) under the AIC, and this fund will be responsible for investing money into Alabama-based firms. This seems to be consistent with other state approaches to investment. Most states have established some approach with respect to incentivizing new businesses to migrate to their respective states.

These approaches usually fall into one of four categories:

1. State venture capital funds
2. Allocated funds from the State Small Business Credit Initiative (SSBCI)



3. Small business accelerator grants
4. Additional state assistance for SBIR and STTR¹⁸

Assuming a state is committed to the idea of innovation-specific financial incentives, we believe research supports the first option, at least when using a model that matches some level of private investment. Launch Tennessee is one such state-run investment group that invests in businesses in Tennessee. One key aspect of the fund is that for a business to qualify for some amount of investment, the fund's investment must be matched by private dollars.¹⁹

Two funds within the Launch Tennessee organization use this approach. The INCITE Fund within Launch Tennessee has already leveraged \$87.7 million in private capital, providing companies additional seed, early and expansion stage, in part by attracting and leveraging the aforementioned private investment. The focus of this fund is to create and retain “high-quality jobs” and “accelerate technology commercialization from Tennessee research institutions to Tennessee companies.”²⁰ Launch Tennessee's other fund is the Impact Fund. Established in 2017, the primary focus of this group was more socially conscious, aiming at investment in companies that are solving social, environmental, and economic problems. Investors in this group focus on for-profit ventures in key areas that include agriculture, health care, sustainable living, education, clean energy, and financial inclusion. The Impact Fund aims to make roughly twenty seed-stage investments at \$50,000–\$150,000 each that will match private dollars at 25 percent, hopefully incentivizing private support for these companies in Tennessee.²¹ The specific impact targets could vary from state to state depending on the state's targeted goals. Another similar type of fund is the 49SAF Co-investment Fund in Alaska. The fund will almost guarantee matching investments up to \$25,000; however, under stricter scrutiny it will match up to \$100,000.²²

Where will the money for these matching investments come from? For Alabama, much of this funding could come from the SSBCI through the American Rescue Plan. This program has provided \$10 billion to fund the SSBCI and would be a useful funding source in establishing a public-private investment fund in Alabama. Further, this type of arrangement is extremely useful in helping the state de-risk its investments, as private entities have already vetted these companies. Therefore, we would strongly recommend that the AIF adopt similar standards to these state investment match programs as an optimal approach in state-assisted investment.

Pension System Concerns and Considerations

Although Alabama's pension system (Retirement Systems of Alabama [RSA]) under the leadership of David Bronner has an impressive history of investing in varied state economic development initiatives, there is concern that the state is sacrificing higher returns to do so

and that language within the AIM Act designed to de-risk specific investments creates an inefficient investment landscape that may hinder all beneficiaries in the long run.

Substantial research suggests that restricting state fund investment to intrastate projects and politically nominated managers leads to funds underperforming relative to their competitors.²³ Pension funds nationally are underfunded by more than \$4 trillion and the average age of Alabamians is rising.²⁴ Thus, limiting the state pension fund from pursuing optimized risk-return strategies is unadvisable. The Alabama Policy Institute estimates RSA currently has a 2x liabilities to assets ratio, including about \$1 billion in accounts payable to pensioners every year.²⁵ It also has not performed well, earning a 2.78 percent rate of return in FY 2019. According to our estimates at the Hoover Institution, Alabama in financial terms has \$45 billion of unfunded pension liabilities across its pension systems, an amount that the governmental accounting used by the systems themselves does not reflect. Owing to systematic (not Alabama-specific) flaws in the public budgeting approach to meet pension obligations, contributions would have to rise by around 60 percent simply to keep the unfunded liabilities in Alabama from increasing.²⁶ Thus, for the financial health of the fund, it should avoid de jure or de facto restrictions on asset allocation and investment strategy that might limit its potential returns.

We therefore recommend an amendment to the AIM Act that would remove the requirement to include “state funds” from the qualified opportunity zone fund designation and replace the “state funds” guarantee of downside losses with some degree of co-investment to be applied from the future Alabama Innovation Fund specified in H.B. 540, with the AIF having some input to the process. This would eliminate a blanket state guarantee and improve governance around investment decisions.

Rural Broadband Development Conditional on Investment

Access to broadband and the internet is of critical importance for an area to be attractive for investment. Without adequate internet access, especially in rural areas of the state, employers will deem quality of life and access to services too low to justify expansion or site selection. Nationwide about 82 percent of households have internet access, yet only three counties in Alabama exceed that mark.²⁷

Additionally, knowing that the OZ designations and associated investment incentives are not necessarily targeting the most economically distressed areas, many of these rural areas still remain without the benefits of designation and thus are unattractive locations for investment relative to other areas in the state.

With this in mind, we recommend that the state partner with electrical companies in guaranteeing development of broadband conditional on private investment into rural areas. Once a project is confirmed, the state would ensure that it would create access to broadband



in these areas. This is a more efficient approach to this issue, as it ensures that investment is reaching areas most directly impacted by firms' broadband concerns. Mass broadband guarantees and construction projects could prove costly and unnecessary depending on an area's needs and challenges. The precise structure of such a program is an important topic for future research.

NOTES

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