ADDRESSING REMOTE WORK IN STATE BUSINESS INCENTIVE PROGRAMS

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Remote work became a more important part of the economic landscape in 2020. In November, 22% of employed persons teleworked because of the coronavirus pandemic.[1] It is not clear how many individuals will continue to work remotely post-pandemic, but companies and workers alike are re-thinking the geography of their relationships. Firms are assessing hiring practices and personnel policies that reflect a greater willingness to allow flexibility as a strategy to attract and retain talent while also re-imagining their physical facility requirements.

States are considering adjustments to incentive policies to acknowledge this shift to remote work. The pandemic prompted many to address remote work in existing incentive performance agreements as companies strive to remain compliant with the terms of their contracts in a changing health and work environment. In some states, changes are intended to be temporary and limited to certain incentive programs in response to current circumstances. Other states are making permanent changes to their incentive policies as a strategic response to the expectation that remote work will become more widespread among the companies they wish to support. Many more states are still sorting through the implications of remote work for their companies and communities before instituting incentive program revisions.

PRINCIPLES/GROUND RULES

1. We use incentives to achieve our economic development goals. These goals are often about improving the well-being of state residents by supporting businesses that provide good jobs, improve communities, and/or invest in the state.

2. Changes to incentive agreements or policies to accommodate remote work should maintain or improve the quality of jobs or work subject to the performance agreement and recognize the distinction in policy between work rules flexibility and work done off-site at locales that are out of region or out of state.

3. Proposed changes should be communicated to local partners and their input solicited on the costs and benefits of adjustments to their communities. Incentive policy and agreement changes should recognize the differing implications of remote work for various localities within the state.

1. These data refer to employed persons who teleworked or worked at home for pay at some point in the last 4 weeks specifically because of the pandemic. This measure does not include employed people who worked entirely from home before the pandemic. https://www.bls.gov/news.release/archives/empsit_12042020.htm and https://www.bls.gov/covid19/effects-of-covid-19-pandemic-and-response-on-the-employment-situation-news-release.htm#ques21

In this fluid environment, what issues should state economic development organizations consider as they determine whether or how to adjust their incentive programs to accommodate remote work?

CHECKLIST OF QUESTIONS

The ground rules can apply to all states, but each state has its own economic priorities and incentive structure that will drive policy and program choices regarding remote work. The questions below provide a framework for considering the critical issues and trade-offs that will help economic development leaders assess their options for adjusting existing incentive programs within their own state contexts.

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Several state economic development leaders have described the shift to remote work as uncharted territory for their organizations. Uncertainties regarding the long-term scale and characteristics of remote work compound the difficulty of instituting incentive policy changes. This checklist of questions, therefore, is a work in progress. It represents the start of what will likely be an ongoing conversation about the best ways to incorporate remote work into incentive programs in an effective and responsible manner.

Is remote work consistent with your state's economic development strategy? The types of business activities that benefit residents vary from state to state. For example, economic development leaders in multi-state regions often see value in encouraging (or not discouraging) companies to hire from across jurisdictional lines and may not think firms should be penalized if some of those employees begin to work from home in other states. However, many other states strive to incentivize work only for their own resident populations. Their policies specify that incentive agreements should only count employees who are in-state residents, not those who take their personal spending and tax dollars to other states.

Certain industries and occupations represent the type of work that can be done off-site while many others require the physical presence of their employees. States that target professional services or technology sectors may be more greatly impacted by an increased prevalence of remote work. Sectors whose employees do their work in traditional office space and use computer networks to accomplish their tasks are more likely to have employees working remotely. States that target these sectors need to address remote work strategically more so than those states that emphasize manufacturing and distribution operations in their economic development efforts.

What is the state's objective in acknowledging remote work arrangements? The way incentive programs address remote work can represent a strategic choice on its own. Is the objective to keep incentivized companies with active agreements compliant? Is it to sustain work opportunities for residents? Is the objective to position the state for future opportunities in sectors likely to continue remote work operations in some form over the long-term? Is it to target incentives to those aspects of a business that will hire local workers while avoiding inadvertently encouraging remote work that could occur outside the state or region?

How should ROI calculations be adjusted to account for remote work to obtain a more accurate picture of the costs and benefits of incentivized activity? Incentives should generate a return to the state. In contrast to the private sector, economic development return on investment (ROI) comprises more than financial (or fiscal) return. Economic development ROI should incorporate social, economic, and fiscal benefits and account for other non-quantifiable project criteria that reflect public policy objectives. This approach to ROI is consistent with the mission of most state economic development organizations. An economic development ROI implies that states should not just look at the ramifications of remote work on state or local taxes, but also consider the implications of a different distribution of the anticipated direct, indirect and induced spending. Induced spending, for instance, may often be dismissed in calculating ROI, but may be particularly important since it seeks to capture the economic and fiscal effects of worker spending patterns on the state and may be significantly reduced due as a result of increased remote work.

Are the implications different for place-based incentive programs than for business incentives? Programs, such as Opportunity Zones or enterprise zones, that are intended to generate economic activity in specific locations within the state have the potential to suffer greatly from a shift to remote work. The impact is likely to be worse for small businesses and their employees than for big companies. Therefore, a different policy response will likely be needed for place-based incentive programs than for business attraction or retention incentives. However, the extent and duration of the impact on such programs is not yet clear. States appear to be at the very early stages of considering this issue, and more research will be needed to determine necessary policy adjustments.

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What guardrails should be put around program changes to avoid spikes in costs or unintended consequences? Many states are limiting proposed changes to specified, short-term time frames. Others are confining changes regarding remote work to individual incentive programs or individual company agreements. A few are taking the opposite approach and establishing ground rules in statute to create a strategic and well-defined foundation for accommodating remote work. States will need to specify what remote work means in the context of their incentive programs.

How will remote work activity be counted and reported? Do incentive recipients understand adjusted reporting requirements? Do the companies have appropriate internal reporting systems to accommodate this issue, given that workers may retain local residences even if they are not living locally? How will information on the number and distribution of remote workers be shared with stakeholders or evaluators? Have state government partners (such as revenue departments for tax credits) been informed of program or policy changes?

STATE EXAMPLES

The Alabama Department of Commerce issued guidance in November 2020 for how remote employees would be considered in the context of the state's incentive project agreements. While remote workers generally may not be counted toward jobs targets, Commerce "will allow employees who would otherwise be located at the facility, but are working remotely for a temporary period due to the ongoing pandemic, to count toward the jobs target, provided all other eligibility requirements are met."

The Arizona Commerce Authority (ACA) has made changes to some of its incentive programs, including allowing remote workers to count for its Qualified Facility Tax Credit Program, and to allow for flexibility in hiring counts for its Traditional and Rapid Employment Job Training Programs. ACA plans additional changes

this year to allow remote workers to count toward company job requirements. The remote work must be tied to the Arizona location affiliated with the incentive, and the workers must be Arizona residents physically located in the state. These rules will apply to all awards under these incentive programs going forward. Additional program requirements may apply.

Georgia's Quality Jobs Tax Credit previously allowed for telework, but the Jobs Tax Credit (JTC) specifically prohibited it. However, changes to program rules allow remote work for the JTC for 2020 and 2021 only. The language defines a telecommuter employee job as a newly created position of employment by a Georgia employer only during tax years beginning 2020 and 2021, requiring a minimum of 35 hours worked each week and paying at or above the average annual wage earned in the county. It specifically excludes jobs classified as independent contractors and out-of-state telecommuting. Wage, hour and health insurance requirements must continue to be met, and the employee must live and work in Georgia to qualify.

The Michigan Business Development Program allows companies to count remote work jobs if all program and job requirements are otherwise met.

In North Carolina, Job Development Investment Grant (JDIG) program grantees may request an amendment to include home-office locations in the definition of a facility for the 2020 and 2021 grant years. Home office employees must meet the definition of a full-time employee and must be residents of North Carolina. Requests must be made by January 31, 2021.

Rhode Island's Remote Work Implementation Grant Program uses CARES Act funds to help businesses in the state transition to remote work during the pandemic. Firms eligible to apply include businesses and nonprofits with 2-100 employees that have both a demonstrated need and employees willing to increase remote work for 3 months. The state will prioritize applicants that also sign up for technical assistance. Funds may be used for hardware, software and internet access. The grants do not offer cash directly to companies but instead makes the awards in-kind via intermediaries.

Utah's Rural Online Initiative, offered through the Utah State University Extension program, provides remote work training and certification for individuals, an e-commerce course for rural businesses, and the Rural Online Initiative for communities preparing for the future of work, including well-paying remote jobs.

In Virginia, companies can include telework positions held by Virginia residents in order to comply with incentive performance agreements under several major incentive programs, including the Commonwealth's Development Opportunity Fund, Virginia Economic Development Incentive Grant, and Virginia Jobs Investment Program, and others. Teleworking positions must be employees of the recipient company or its affiliates. This is a permanent policy change established in statute in 2019.

With all the uncertainties surrounding the future scale and scope of remote work, states are learning as they go to adjust to a landscape in transition. CREC and Smart Incentives will continue to work with state economic development leaders to analyze remote work trends and provide technical assistance on this topic in the coming year.

ABOUT THIS SERIES

In the economic crisis brought on by the coronavirus and COVID-19 public health concerns, state economic development executives are considering significant questions regarding how best to use incentive programs to help their states respond to the challenge. A coherent set of principles and approaches around adapting incentive use can help states respond strategically.

This is the fifth in a series of guidance papers.

Please also see:

- Adjusting Performance Agreements – Guide to Help States Adjust Incentive Performance Agreements in Response to the Current Economic Crisis, May 2020.
- Small Business Assistance – Guidance on Adjusting Discretionary Incentive Programs to Support Small Business Recovery, July 2020.
- Reporting and Evaluation – Incentive Adjustments, Guidance on Documenting Program Changes, August 2020.
- A New Approach to the But-For Question – Estimating the Influence of Incentives on Investment Decisions, November 2020