MEMORANDUM

DATE: JANUARY 17, 2013

TO: MAYOR MATHIAS HARTER
FINANCE AND PERSONNEL COMMITTEE
JUDICIARY AND ADMINISTRATION COMMITTEE

FROM: LAWRENCE J. KIRCH, DIRECTOR OF PLANNING AND DEVELOPMENT LJK

CC: CITY ATTORNEY STEPHEN MATTY
DIRECTOR OF FINANCE AND PURCHASE WAYNE DELAGRAVE
JIM HILL, LADCO EXECUTIVE DIRECTOR
BRIAN FUKUDA, LA CROSSE COUNTY COMMUNITY AND ECONOMIC DEVELOPMENT

SUBJECT ***RECENT ARTICLES/PUBLICATIONS ON BUSINESS INCENTIVES***

The following information is provided as a prelude to the joint J&A/F&P meeting at 4:30 p.m. on Monday, January 28, 2013. There are three *New York Times* articles that ran in early December and an article by Richard Florida (author of *The Creative Class*) who disputes some of the NYT figures but comes to the same conclusion. The third piece is the executive summary from a report by the Lincoln Institute of Land Policy. The fourth article is an article from the January issue of *Governing* Magazine.

While the information brings to light the various aspects of incentives and mostly in a negative way, the Lincoln Institute of Land Policy white paper provides some direction regarding the necessity of having written policies and procedures. The City will likely continue with incentives, so having a better understanding of what is going on nationally is beneficial for the discussion. The information also allows the discussion to go forward with eyes wide open.

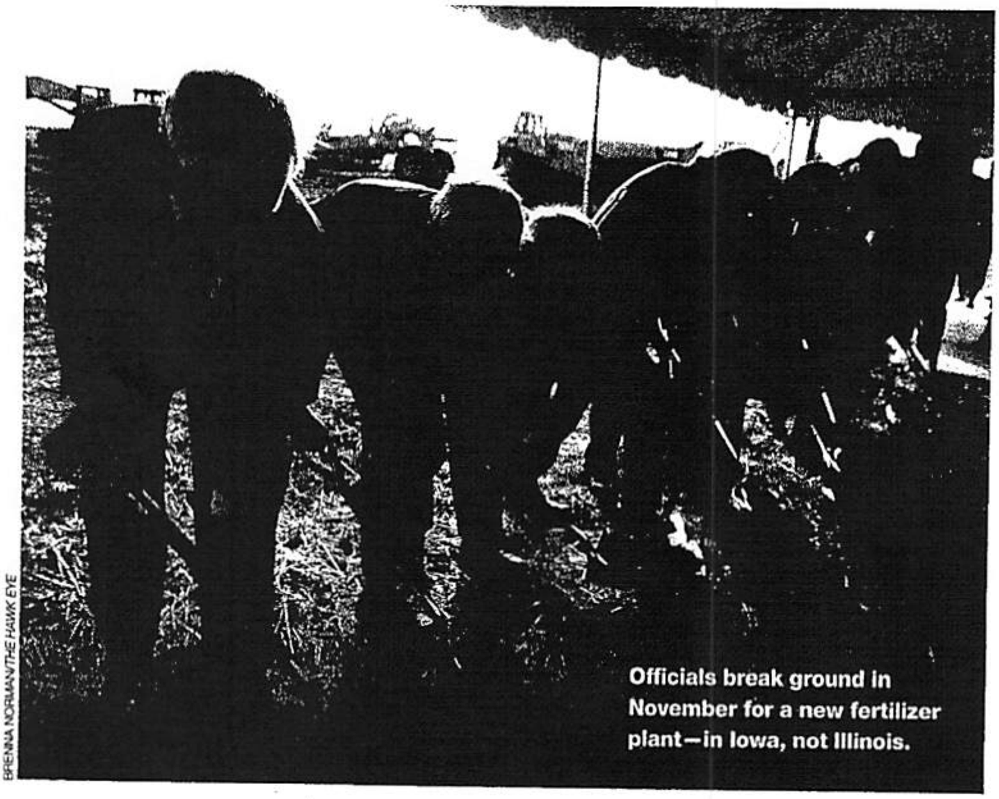
I have also attached the most recent version of the ordinance as amended during the last joint meeting.

I plan on having a very brief Powerpoint, review the changes from the last meeting, then open the discussion for further changes.

Thank you.

To Woo Companies in Tough Times, States Double Down on Incentives

IT DIDN'T PLAY in Peoria. Local and state officials tried to put together a generous incentives package to persuade an Egyptian company to build a $1.4 billion fertilizer plant in Peoria County, Ill., but their efforts failed thanks to $130 million worth of tax incentives and property tax write-offs offered by the state and localities over in Iowa.



BRENNA NORMAN/THE HAWK EYE

Officials break ground in November for a new fertilizer plant—in Iowa, not Illinois.

Given the state's chronic budget problems, a majority of Illinois legislators couldn't be persuaded to surrender that kind of cash. But the fact that the plant went elsewhere shows why states have been throwing money at businesses and developers. "Economically, it's hard to unilaterally disarm," says Kenneth Thomas of the University of Missouri-St. Louis. "If you don't give incentives, you are going to lose investment."

In the wake of the recession and the long, slow recovery from it, state and local governments have been even more eager to offer incentives to those few projects they have hopes of landing. Nine of the top 25 incentive packages over the past decade were for projects in 2010 and 2011 alone, showing that states had grown "desperate" during that time, Thomas says.

Over those two years, he notes, there were 21 incentive packages worth more than $100 million—compared to just three such deals within the European Union. A recent analysis from *The New York Times* found that subsidies from state and local governments have become an $80 billion-a-year gift to the private sector.

Governments have entered into a spiral of higher subsidy values, not just in terms of the amount of money they're offering, but also in the ways deals are structured. States such as Illinois, Kansas and Nevada now issue STAR bonds, which stands for "sales tax anticipation of revenue." What that means in English is that rather than giving tax breaks over a 10- or 20-year period, governments issue bonds and hand the developer or the company cash up front.

That can create all sorts of problems. The money given to private companies is worth more, since it's not spread over time and subject to inflation. And it makes it difficult for states to penalize companies that don't make good on their promises to deliver jobs or maintain wage standards. It's harder to claw back incentives that have already been handed out, after all, than not to award them in the first place.

There's plenty of evidence that tax incentives aren't economically productive. The Lincoln Institute of Land Policy released a study last year that showed property tax breaks are costing states and localities $10 billion a year, but do little to effect economic activity or create new jobs.

Still, as long as neighboring communities and states are willing to play the incentives game, states and localities will keep ponying up. Illinois state Rep. Fred Crespo's challenger complained about a $150 million property and income tax credit he'd sponsored for Sears, saying that the "deals takes millions of dollars away from a school district to essentially give to a big corporation." But Crespo noted the legislation had wide support and required Sears to maintain more than 4,000 jobs locally. Crespo won.

—AG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Regardless How They're Counted, Incentives Do Nothing for Economic Development

RICHARD FLORIDA DEC 13, 2012 12 COMMENTS

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Last Friday, I wrote here on the "uselessness of economic development." Using *The New York Times*'s new database on state and local economic development incentives, I found no association between these incentives and key measures of economic performance and found virtually no association for the fifty states.

One thing is clear about this topic: it gets people talking. The *Times*'s series itself sparked an onslaught of debate, and my analysis here on *Cities* prompted a lively debate in the comments as well as some illuminating email exchanges from various experts in the field.

Kenneth Thomas, a leading expert on economic development incentives at the University of Missouri-St. Louis who has written two books on the subject, took issue with some of the items the *Times* included in its $80 billion estimate for incentives. The *Times* database, Thomas wrote to me in an email, "which is the basis for [its] $80 billion a year estimate (my most recent is $70 billion), is badly flawed because 5/8 of that total comes from sales tax breaks, which for the most part prevent tax cascading rather than representing a subsidy. I personally think some sales tax exemptions do count as subsidies because they are specific (to an industry, for example), but some economists think the right answer is that no sales tax breaks are subsidies." He also wrote a post on this, and directed me to another, by economic development expert Timothy Bartik of the W.E. Upjohn Institute for Employment Research, questioning similar aspects of the *Times* estimate.

Fortunately, the *Times*'s database is sortable by incentive type. So, my Martin Prosperity Institute team recalculated the incentives, this time subtracting the category for "sales tax refund, exemptions or other sales tax discounts." This is the largest single category of incentives, as Thomas notes, mounting to $51.4 billion dollars. Taking it out leaves an estimated $29 billion in total incentives. The MPI's Zara Matheson mapped these revised figures for total incentives and incentives per capita.

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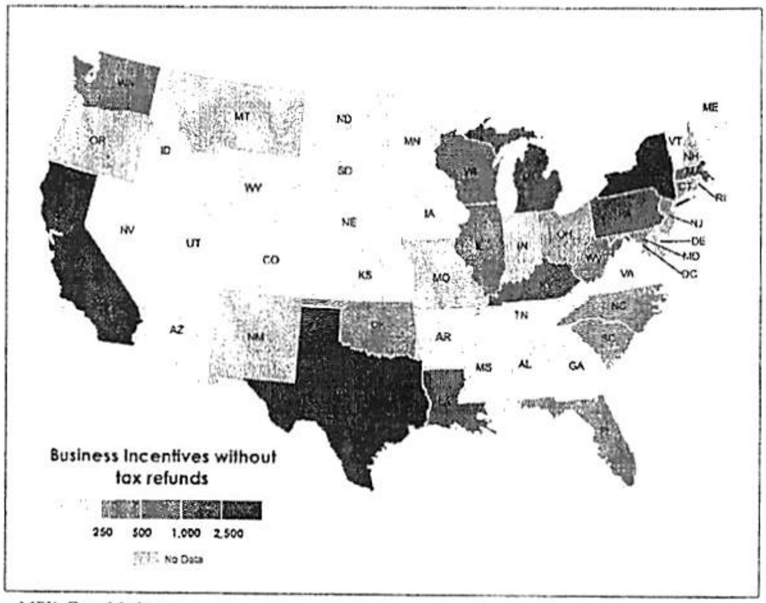
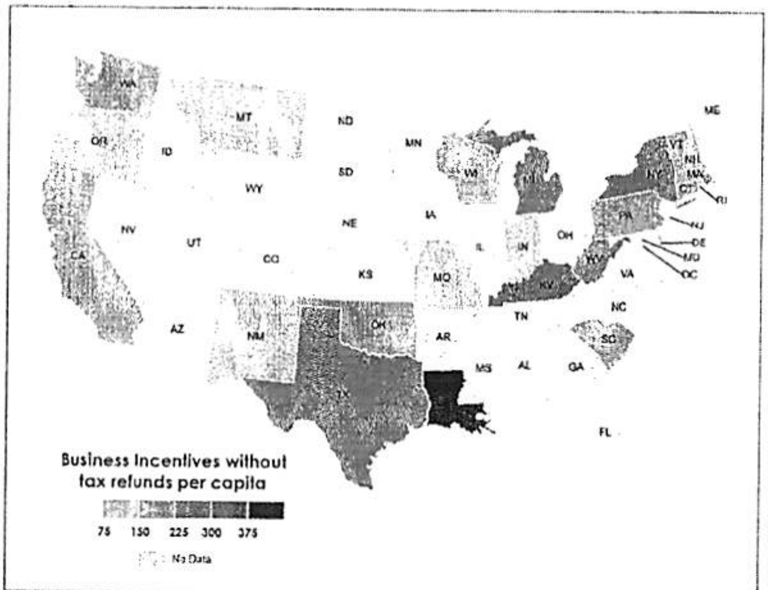


by MPI's Zara Matheson

The first map charts the total incentives across the U.S. Texas again leads with $4.2 billion in incentives. California is second with $3.8 billion, followed by New York with $3.2 billion, Michigan $1.8 billion, Louisiana $1.7 billion, Pennsylvania $1.4 billion, and Kentucky $1.3 billion.



by MPI's Zara Matheson

The second map charts the revised figures for incentives per capita. Louisiana leads at $386.03, and Kentucky is second ($299.18). Michigan is third ($183.92), followed by West Virginia ($182.99), Texas ($166.90), New York ($164.95), D.C. ($150.08), Massachusetts ($148.08), Washington ($132.17), Connecticut ($131.15), Pennsylvania ($111.78), California ($101.63), and Wisconsin ($100.37).

The MPI's Charlotta Mellander ran a new correlation analysis for these revised figures on incentives. The analysis remains preliminary. There are missing values for some states, and as usual, I reiterate that correlation does not mean causation. Two things stand out.

First off, the states that spend more on incentives spend more on all types of them. Our revised

MAPS

Happy 150th Birthday, London Tube!

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estimates are highly correlated with the original *Times* figures (with a correlation of .82). The correlation for the two types of incentives on a per capita basis is also statistically significant, though somewhat lower (.56).

And, second, incentives still do not have any meaningful relationship to the economic performance of states. The key findings of our analysis remain the same as before. Even when we take out sales tax and related tax refunds, we find no relationship between incentives and any meaningful measure of economic performance. As before, there is no statistically significant correlation to economic output per capita, none with wages, none with income, and none with educational attainment, measured as college grads as a share of adults.

The correlation we previously found between incentives and the poverty rate now disappears when we used revised figures for incentives without tax refunds. In reviewing these revised findings, Thomas wrote in an email to me that while the *Times* database still has some limits, they probably would not affect this revised analysis.

> The only caveat here is that the database has very uneven coverage of local incentives, so you are measuring state only for some states vs. state/local for others. This probably won't change things too much, as there are only two states I know of for sure where local incentives are higher, Missouri and California.

This provides additional evidence of the inefficacy — what I dubbed the "uselessness" of — state and local economic development incentives.

Keywords: Maps, economic development, Incentives, Business

Richard Florida is Co-Founder and Editor at Large at The Atlantic Cities. He's also a Senior Editor at *The Atlantic*, Director of the Martin Prosperity Institute at the University of Toronto's Rotman School of Management, and Global Research Professor at New York University. He is a frequent speaker to communities, business and professional organizations, and founder of the Creative Class Group, whose current client list can be found here. All posts »

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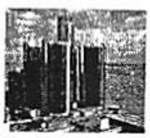

The Uselessness of Economic Development Incentives

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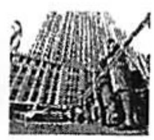

A Growing Divide In Urban Gun Violence

Executive Summary

The use of property tax incentives for business by local governments throughout the United States has escalated over the last 50 years. While there is little evidence that these tax incentives are an effective instrument to promote economic development, they cost state and local governments $5 to $10 billion each year in forgone revenue.

Three major obstacles can impede the success of property tax incentives as an economic development tool. First, incentives are unlikely to have a significant impact on a firm's profitability since property taxes are a small part of the total costs for most businesses averaging much less than 1 percent of total costs for the U.S. manufacturing sector. Second, tax breaks are sometimes given to businesses that would have chosen the same location even without the incentives. When this happens, property tax incentives merely deplete the tax base without promoting economic development. Third, widespread use of incentives within a metropolitan area reduces their effectiveness, because when firms can obtain similar tax breaks in most jurisdictions, incentives are less likely to affect business location decisions.

This report reviews five types of property tax incentives and examines their characteristics, costs, and effectiveness.

- The best evidence on property tax abatement programs indicates they are effective initially for the first jurisdictions that use such incentives, but once they proliferate across a metropolitan area they no longer promote economic growth.
- Evidence on the impact of tax increment finance on economic activity is more mixed, but this mechanism may be overused and finance less beneficial projects when one local government is able to divert revenue from another local government without its approval, such as a city diverting a school district's revenue.
- Enterprise zones, which typically include property tax incentives as part of a larger incentive package and are usually targeted to distressed areas, have limited effectiveness.
- Very little information is available regarding either firm-specific property tax incentives or property tax exemptions in connection with issuance of industrial development bonds.

Despite a generally poor record in promoting economic development, incentives can be helpful in some cases. When these incentives attract new businesses to a jurisdiction they can increase income or employment, expand the tax base, and revitalize distressed urban areas. In a best case scenario, attracting a large facility can increase worker productivity and draw related firms to the area, creating a positive feedback loop. This report offers recommendations to improve the odds of achieving these economic development goals.

Alternatives to tax incentives should be considered by policy makers seeking more cost-effective approaches, such as customized job training, labor market intermediaries, and business support services. State and local governments also can pursue a policy of broad-based taxes with low tax rates or adopt split-rate property taxation with lower taxes on buildings than land.

State policy makers are in a good position to increase the effectiveness of property tax incentives since they control how local governments use them. For example, states can restrict the use of incentives to certain geographic areas or certain types of facilities; publish information on the use of property tax incentives; conduct studies on their effectiveness; and reduce destructive local tax competition by not reimbursing local governments for revenue they forgo when they award property tax incentives.

Local government officials can make wiser use of property tax incentives for business and avoid such incentives when their costs exceed their benefits. Localities should set clear criteria for the types of projects eligible for incentives; limit tax breaks to mobile facilities that export goods or services out of the region; involve tax administrators and other stakeholders in decisions to grant incentives; cooperate on economic development with other jurisdictions in the area; and be clear from the outset that not all businesses that ask for an incentive will receive one.

The New York Times

December 1, 2012

As Companies Seek Tax Deals, Governments Pay High Price

By LOUISE STORY

In the end, the money that towns across America gave General Motors did not matter.

When the automaker released a list of factories it was closing during bankruptcy three years ago, communities that had considered themselves G.M.'s business partners were among the targets.

For years, mayors and governors anxious about local jobs had agreed to G.M.'s demands for cash rewards, free buildings, worker training and lucrative tax breaks. As late as 2007, the company was telling local officials that these sorts of incentives would "further G.M.'s strong relationship" with them and be a "win/win situation," according to town council notes from one Michigan community.

Yet at least 50 properties on the 2009 liquidation list were in towns and states that had awarded incentives, adding up to billions in taxpayer dollars, according to data compiled by The New York Times.

Some officials, desperate to keep G.M., offered more. Ohio was proposing a $56 million deal to save its Moraine plant, and Wisconsin, fighting for its Janesville factory, offered $153 million.

But their overtures were to no avail. G.M. walked away and, thanks to a federal bailout, is once again profitable. The towns have not been so fortunate, having spent scarce funds in exchange for thousands of jobs that no longer exist.

One township, Ypsilanti, Mich., is suing over the automaker's departure. "You can't just make these promises and throw them around like they're spare change in the drawer," said Doug Winters, the township's attorney.

Yet across the country, companies have been doing just that. And the giveaways are adding up to a gigantic bill for taxpayers.

A Times investigation has examined and tallied thousands of local incentives gi nationwide and has found that states, counties and cities are giving up more th each year to companies. The beneficiaries come from virtually every corner of world, encompassing oil and coal conglomerates, technology and entertainment companies, banks and big-box retail chains.

The cost of the awards is certainly far higher. A full accounting, The Times discovered, is not possible because the incentives are granted by thousands of government agencies and officials, and many do not know the value of all their awards. Nor do they know if the money was worth it because they rarely track how many jobs are created. Even where officials do track incentives, they acknowledge that it is impossible to know whether the jobs would have been created without the aid.

"How can you even talk about rationalizing what you're doing when you don't even know what you're doing?" said Timothy J. Bartik, a senior economist at the W.E. Upjohn Institute for Employment Research in Kalamazoo, Mich.

The Times analyzed more than 150,000 awards and created a searchable database of incentive spending. The survey was supplemented by interviews with more than 100 officials in government and business organizations as well as corporate executives and consultants.

A portrait arises of mayors and governors who are desperate to create jobs, outmatched by multinational corporations and short on tools to fact-check what companies tell them. Many of the officials said they feared that companies would move jobs overseas if they did not get subsidies in the United States.

Over the years, corporations have increasingly exploited that fear, creating a high-stakes bazaar where they pit local officials against one another to get the most lucrative packages. States compete with other states, cities compete with surrounding suburbs, and even small towns have entered the race with the goal of defeating their neighbors.

While some jobs have certainly migrated overseas, many companies receiving incentives were not considering leaving the country, according to interviews and incentive data.

Despite their scale, state and local incentives have barely been part of the national debate on the economic crisis. The budget negotiations under way in Washington have not addressed whether the incentives are worth the cost, even though 20 percent of state and local budgets come from federal spending. Lawmakers in Washington are battling over possible increases in personal taxes, while both parties have said that lower federal taxes on corporations are needed for the country to compete globally.

The Times analysis shows that Texas awards more incentives, over $19 billion a year, than any other state. Alaska, West Virginia and Nebraska give up the most per resident.

For many communities, the payouts add up to a substantial chunk of their overall spending, the analysis found. Oklahoma and West Virginia give up amounts equal to about one-third of their budgets, and Maine allocates nearly a fifth.

In a few states, the cost of incentives is not significant. But several of them have low business taxes — or none at all — which can save companies even more money than tax credits.

Far and away the most incentive money is spent on manufacturing, about $25.5 billion a year, followed by agriculture. The oil, gas and mining industries come in third, and the film business fourth. Technology is not far behind, as companies like Twitter and Facebook increasingly seek tax breaks and many localities bet on the industry's long-term viability.

Those hopes were once more focused on automakers, which for decades have pushed cities and states to set up incentive programs, blazing a trail that companies of all sorts followed. Even today, G.M. is the top beneficiary, public records indicate. It received at least $1.7 billion in local incentives in the last five years, followed closely by Ford and Chrysler.

A spokesman for General Motors said that almost every major employer applied for incentives because they help keep companies competitive and retain or create jobs.

"There are many reasons why so many Ford, Chrysler and G.M. plants closed over the last few decades," said the G.M. spokesman, James Cain. "But these factors don't mean that the companies and communities didn't benefit while the plants were open, which was often for generations."

Mr. Cain cited research showing that the company received less money per job than foreign automakers operating in the United States.

Questioned about incentives, officials at dozens of other large corporations said they owed it to shareholders to maximize profits. Many emphasized that they employ thousands of Americans who pay taxes and spend money in the local economy.

For government officials like Bobby Hitt of South Carolina, the incentives are a good investment that will raise tax revenues in the long run.

"I don't see it as giving up anything," said Mr. Hitt, who worked at BMW in the 1990s and helped it win $130 million from South Carolina.

Today, Mr. Hitt is the state's secretary of commerce. South Carolina recently took on a $218 million debt to assist Boeing's expansion there and offered the company tax breaks for 10 years.

Mr. Hitt, like most political officials, has a short-term mandate. It will take years to see whether the state's bet on Boeing bears fruit.

In Michigan, Gov. Rick Snyder, a Republican in his first term, has been working to eliminate most business tax credits but is bound by past awards. The state gave General Motors $779 million in credits in 2009, just a month after the company received a $50 billion federal bailout and decided to close seven plants in Michigan.

G.M. can use the credits to offset its state tax bill for up to 20 years. "You don't know who will take a credit or when," said Doug Smith, a senior official at the state's economic development agency. "We may give a credit to G.M., and they might not take it for three years or 10 years or more."

One corporate executive, Donald J. Hall Jr. of Hallmark, thinks business subsidies are hurting his hometown, Kansas City, Mo., by diverting money from public education. "It's really not creating new jobs," Mr. Hall said. "It's motivated by politicians who want to claim they have brought new jobs into their state."

For Mr. Hall and others in Kansas City, the futility of free-flowing incentives has been underscored by a border war between Kansas and Missouri.

Soon after Kansas recruited AMC Entertainment with a $36 million award last year, the state cut its education budget by $104 million. AMC was moving only a few miles, across the border from Missouri. Workers saw little change other than in commuting times and office décor. A few months later, Missouri lured Applebee's headquarters from Kansas.

"I just shake my head every time it happens, it just gives me a sick feeling in the pit of my stomach," said Sean O'Byrne, the vice president of the Downtown Council of Kansas City. "It sounds like I'm talking myself out of a job, but there ought to be a law against what I'm doing."

Outgunned by Companies

For local governments, incentives have become the cost of doing business with almost every business. The Times found that the awards go to companies big and small, those gushing in profits and those sinking in losses, American companies and foreign companies, and every industry imaginable.

Workers are a vital ingredient in any business, yet companies and government officials increasingly view the creation of jobs as an expense that should be subsidized by taxpayers, private consultants and local officials said.

Even big retailers and hotels, whose business depends on being in specific locations, bargain for incentives as if they can move anywhere. The same can be said for many movie productions, which almost never come to town without local subsidies.

When Oliver Stone made the 2010 sequel to "Wall Street," in his mind there was only one place to shoot it: New York City. Nonetheless, the film, a scathing look at bankers' greed, received $10 million in tax credits, according to 20th Century Fox.

In an interview, Mr. Stone criticized subsidies for industries like banking and agriculture but defended them for Hollywood, saying that many movies can be shot anywhere and that their actors and crew members pay state income taxes. "It's good," Mr. Stone said of the film subsidies. "Or like basically the way business is done. I don't understand what the moral qualm is."

The practical consequences can be easily seen. The Manhattan Institute for Policy Research, a conservative group, found that the amount New York spends on film credits every year equals the cost of hiring 5,000 public-school teachers.

Nationwide, billions of dollars in incentives are being awarded as state governments face steep deficits. Last year alone, states cut public services and raised taxes by a collective $156 billion, according to the Center on Budget and Policy Priorities, a liberal-leaning advocacy group.

Incentives come in many forms: cash grants and loans; sales tax breaks; income tax credits and exemptions; free services; and property tax abatements. The income tax breaks add up to $18 billion and sales tax relief around $52 billion of the overall $80 billion in incentives.

Collecting data on property tax abatements is the most difficult because only a handful of states track the amounts given by cities and counties. Among them is New York, where businesses save an estimated $1.1 billion a year in property taxes. The American International Group, the insurance company at the center of the 2008 financial crisis, continued to benefit from a $23.8 million abatement from New York City at the same time it was being bailed out with $180 billion in federal money.

Since 2000, The New York Times Company has received more than $24 million from the city and state.

In some places, local officials have little choice but to answer the demands of corporations.

"They dictate their terms, and we're not really in a position to question their deal terms," Sarah Eckhardt, a commissioner in Travis County, Tex., said of companies she has dealt with recently, including Apple and Hewlett-Packard. "We don't have the sophistication or the resources to negotiate with a company that has the wherewithal the size of a country. We are just no match in negotiating with that."

Local officials can find themselves across the table from conglomerates like Shell Oil and Caterpillar, the world's largest maker of construction equipment.

Shell has been offered a tax credit worth as much as $1.6 billion over 25 years from Pennsylvania, which competed with West Virginia and Ohio for an energy production facility. Royal Dutch Shell, the parent company, made $31 billion in profits in 2011 — about $3.5 million every hour. The company's chief executive made $13.1 million last year, according to Equilar, an executive compensation firm. Pennsylvania predicts that the plant will create thousands of long-term jobs, but it did not require them in exchange for the tax credit.

Caterpillar has received more than $196 million in local aid nationwide since 2007, though it has chastised states, particularly its home base, Illinois, for not being business-friendly. This year, Caterpillar announced a new plant in Georgia, which offered $44 million in incentives. Local counties chipped in free land and other aid, including $15 million in tax breaks and $8.2 million in road, water and sewer repairs.

The company, whose profits are soaring, recently froze workers' pay for six years at several locations, arguing that it needed to remain competitive. A spokesman for the company, Jim Dugan, said it employed more than 50,000 people and invested billions of dollars nationwide.

Local officials typically have scant information about the track record of corporations, like whether they lived up to job assurances elsewhere. And some officials acknowledged that they did not know to what extent incentives were a deciding factor for companies.

"I don't know that there's a way to know other than talking to the businesses, and the businesses telling us that that was a factor in creating jobs," said Ken Striplin, the city manager of Santa Clarita, Calif., which gives tax breaks in a designated enterprise zone. "There's no box that says 'I would have created this job without the enterprise zone.' "

California is one of the few states that have been cutting back on incentives. But that does not mean its cities are following suit. When Twitter threatened to leave San Francisco last year, officials scrambled to assuage the company.

Twitter was not short on money — it soon received a $300 million investment from a Saudi prince and $800 million from a private consortium. The two received Twitter equity, but San Francisco got a different sort of deal.

The city exempted Twitter from what could total $22 million in payroll taxes, and the company agreed to stay put. The city estimates that Twitter's work force could grow to 2,600 employees, although the company made no such promise.

A Twitter spokeswoman said the company was "very happy to have been able to stay in San Francisco." City officials did not respond to inquiries.

Like many places, San Francisco has been cutting its budget. Public parks have lost about $12 million in recent years, though workers at Twitter will not lack for greenery. The company's plush new office has a rooftop garden with great views and amenities. Enjoying the perks, one employee sent out a tweet: "Tanned on Twitter's new roof deck this morning as some dude served me smoothie shots. This is real life?"

A Zero-Sum Game

It was the company every state had to have. In 1985, General Motors was looking for a spot to manufacture its Saturn, a new compact car that would compete with Japanese imports and create thousands of American jobs.

Incentives were not in wide use, and several states had only recently begun to allow more of them.

In fact, when G.M. announced the search, its chairman, Roger Smith, said the perks would not be a predominant factor. "Tax breaks can't make a silk purse out of a sow's ear," Mr. Smith told The Detroit Free Press. He said G.M. planned to avoid states that had large debts or lackluster schools.

Undeterred, some 30 states stepped forward in what became a full-out competition. One official, Bill Clinton, then the governor of Arkansas, traveled to Detroit offering income tax credits and sales tax exemptions worth nearly $200 million.

Mr. Smith essentially kept his word and chose Tennessee, which had put together a relatively small package. Reid Rundell, a retired G.M. executive, said in a recent interview that it had come down to geography. "The primary factor was distribution for incoming parts, as well as outgoing vehicles," Mr. Rundell said.

But the gates had been opened. In 1992, South Carolina lured BMW with a $130 million package; the next year, Alabama got Mercedes-Benz at a price tag that topped $300 million.

"What the auto incentives did back then was really raise the profile of economic incentives both within companies, in government and in the public's eye," said Mark Sweeney, who worked for the South Carolina Commerce Department in the 1990s and now advises companies on obtaining government grants.

By 1993, governors were regaling one another at a national conference with stories of deals beyond the auto industry, including a recent bidding war for United Airlines that drew more than 90 cities. The airline had set up negotiations in a hotel, and its representatives ran floor to floor comparing bids, said Jim Edgar, then the governor of Illinois.

Mr. Edgar said he had called for a truce, concerned that the practice was unfair to companies that did not receive incentives. But many states would not sign on, he said, particularly those in the South, where businesses were moving.

“If you've got some states doing it, it's hard for the others not to do it,” Mr. Edgar said. “It's like unilaterally disarming.”

Soon after, economists at Federal Reserve branches were questioning the use of incentives. One, in Minnesota, used mathematical proofs and game theory to show that competition between states did not increase overall economic value. Several other economists have since called the practice a zero-sum game.

A group of taxpayers in Michigan and Ohio went as far as suing DaimlerChrysler after Ohio and the City of Toledo awarded the automaker $280 million in the late 1990s. The suit argued that it was unfair for one taxpayer to be given a break at the expense of all others.

The suit made its way to the Supreme Court, and G.M. and Ford signed on to briefs supporting Daimler, as did local governments. The National Governors Association warned the court that prohibiting incentives could lead to jobs moving overseas. “This is the economic reality,” the association said in a brief.

The governors offered no hard evidence of the effectiveness of tax credits, but the Supreme Court did not consider whether they worked anyway. In 2006, the court concluded that the taxpayers did not have the legal standing to challenge Ohio's tax actions in federal court.

The tab for auto incentives has grown to $13.9 billion since 1985, according to the Center for Automotive Research, a nonprofit group in Ann Arbor, Mich. G.M., the top recipient, was awarded $3.3 billion of the aid. Since 1979, automakers also closed more than 267 plants in the United States, about half of which still sit empty, according to the center.

The auto industry and some local officials have long argued that auto companies create so many jobs and draw in so many supporting suppliers that all taxpayers benefit. Even if companies shut down years later, as Saturn did in Tennessee for a few years, the trade-off is worth it, they said.

"I do believe that if a state ever is going to create incentives," said Lamar Alexander, who was Tennessee's governor in 1985 when Saturn selected the state, "the auto industry would be by far the No. 1 target, because an auto assembly plant is a money target."

Still, Mr. Alexander, now a United States senator, said that recruiting a large factory today would be more expensive. "It has changed a lot," he said. "It's almost become a sweepstakes."

G.M. Gets Into the Act

G.M. may have initially minimized the role of local dollars, but as the company's financial problems grew, incentives became a big part of its math.

The actions of the company were described in more than two dozen in-depth interviews with former company officials, tax consultants and governors and mayors who have dealt with G.M.

The automaker's real estate division, Argonaut Realty, oversaw the hunt for the most lucrative deals. Up and down the corporate ladder, employees were encouraged to push governments for more, according to transcripts of public meetings and interviews. Even G.M. plant managers knew that the future of their facilities depended in part on their ability to send word of big discounts back to Detroit.

Union representatives were enlisted to attend local hearings, putting a human face on the jobs at stake. G.M.'s regional tax managers often showed up, armed with tax abatement wish lists and highlighting the company's gifts to local charities.

"We knew what our investment of X amount meant to the community, and we knew we needed to partner with the community to be successful," said Marilyn P. Nix, who worked as a real estate executive at G.M. for 31 years until retiring in 2005.

At the top of G.M., executives reviewed the proposals from various locations and went where the numbers added up.

"I know people like to blame the industry for taking advantage of the incentives; but you go back to what your fiduciary responsibility is to the stockholders," Ms. Nix said. "As long as you've got people that are willing to better the deals, the management owes it to their stockholders to try to get the best economic deal that they can."

For towns, it became a game of survival, even if the competition turned out to be a mirage.

Moraine, Ohio, was already home to a G.M. plant in 1997 when the company pushed hard for additional incentives. G.M. said it was looking for a place to accommodate more manufacturing.

Wayne Barfels, the city manager at the time, said a G.M. representative had told officials that Moraine was competing with Shreveport, La., and Linden, N.J. After the local school board approved property tax breaks, The Dayton Daily News reported that the other towns had not been in discussions with G.M.

The school board considered rescinding the deal, but allowed G.M. to keep it after a company official apologized. In 2008, G.M. shut the Moraine facility.

In towns where General Motors remains, local officials praised the company. "I can say they have been a great partner to us," said Virg Bernero, the mayor of Lansing, Mich. "It would do something to the psyche of this community if they were not here. I mean, I just praise God every day."

Looking to lure businesses beyond automakers, states have routinely bolstered their incentive tool kits. In 2010 alone, states created or expanded about 40 tax credits and exemptions, according to the National Conference of State Legislatures.

The nature of the credits has also changed. New ones are geared toward attracting technology and green energy companies, but it is hard to know whether 15 years down the road they will thrive or wind up stumbling like the automakers. And many modern companies, like those in digital technology, can easily pack up and leave.

"I don't see anything that suggests that Twitter and Facebook are better bets in the long run," said Laura A. Reese, the director of the Global Urban Studies Program at Michigan State University. Ms. Reese advises local governments to invest in residents through education and training rather than in companies where "it's hard to pick winners."

Yet states try to do it all the time. In 2010, Rhode Island, which has the nation's second-highest unemployment rate, recruited Curt Schilling, a former Red Sox pitcher, to move his video game company from Massachusetts. The company, 38 Studios, had never released a game and was not making money, but the governor at the time had the state guarantee $75 million in loans.

The company failed and dismissed all of its roughly 400 workers this May. Rhode Island taxpayers are now on the hook for the loans.

Officials said part of the difficulty was that communities do not get much say in a company's business strategy.

"We, as communities, stake our futures with these people who are supposed to know what they're doing, and sometimes they don't," said Arthur Walker, a businessman in Shreveport and former chairman of the city's chamber of commerce.

Mr. Walker and other officials in Shreveport know firsthand. In 2000, they were worried that G.M. would close a plant in their area and responded with a generous proposal: the city would cut the company's gas bill and provide work force training grants. In addition, G.M. would benefit by a recent increase in one of the state's income tax credits.

Eager to encourage innovation, Shreveport officials suggested ways the city could assist G.M. in building electric cars. "We wanted to be part of the future," said Mr. Walker, whose brother worked at the plant.

G.M. took the city's incentives but not its business advice and began building the giant Hummer there.

"We knew they needed to build green cars — I mean, who builds a Hummer for the 21st century?" Mr. Walker said. "It was a losing proposition that we found ourselves in. We couldn't win because those people weren't making the correct business decisions, in my view. When it didn't work, we're the ones left holding the bag."

The Hummer was discontinued in 2010, and the Shreveport factory closed this August, the final victim of G.M.'s bankruptcy.

Ypsilanti's Losing Battle

For much of the last 20 years, Doug Winters has been agitating for General Motors to be held accountable.

Mr. Winters, the attorney for Ypsilanti Township and several other places around Ann Arbor, has lived in Ypsilanti all his life. His grandmother labored at the local plant, Willow Run, during World War II, when it made bomber planes. People in town still proudly point out that a woman known as Rosie the Riveter worked there as well. After the war, when G.M. moved into the plant to manufacture its automatic transmission system, his father got a job.

Mr. Winters loves the history of Willow Run but hates what he views as corporate hypocrisy: G.M. asked for government help on the one hand and then appealed to free-market rationales for closing shop.

Over the years, Ypsilanti granted G.M. more than $200 million in incentives for two factories at Willow Run, Mr. Winters said. "They had put basically a stranglehold on the entire state of Michigan and other places across the country by just grabbing these tax abatements by the billions," he said. "They were doing it with a very thinly disguised threat that if you don't give us these tax abatements, then we'll have to go somewhere else."

Ypsilanti first sued G.M. in the 1990s to prevent the company from closing the factory at Willow Run that made the Chevrolet Caprice.

The town had granted the company tax incentives after the factory manager argued that G.M.'s ability to compete with other carmakers was at stake, documents in the lawsuit show. The tax break and "favorable market demand," said the plant manager, Harvey Williams, would allow the automaker to "maintain continuous employment."

Nevertheless, G.M. shut the factory. A lower court found in favor of Ypsilanti, but the ruling was reversed on appeal. The judge said that a company's job assurances "cannot be evidence of a promise."

In 2010, when the company closed the remaining factory at Willow Run, Mr. Winters sued again. This time, Ypsilanti argued that the automaker should have been forced to close overseas factories instead, especially since American taxpayers had bailed out G.M. In addition, Ypsilanti sought to recover money from G.M., saying the company had agreed to reimburse the town for some incentives if it left.

So far, Ypsilanti's claims have not been addressed. They were complicated by G.M.'s bankruptcy, which allowed the carmaker to emerge as a new company and leave some of its liabilities and contractual obligations behind.

When asked whether the new G.M. has civic responsibilities to its former factory towns, Mr. Cain, the company spokesman, said: "Our obligation to the communities where we do business is to run a successful business. And when we prosper, it allows us to do more than just turn the lights on and make cars."

He also said that since the bailout, "G.M. has invested more than $7.3 billion in its U.S. facilities, and we've created or retained almost 19,000 jobs in communities all over the country."

Matthew P. Cullen, who oversaw real estate and economic development for G.M. until he left the company in 2008, said the automaker was aware of its impact on communities. He said that what happened with G.M. was the result of an entire industry changing and that there had been no bad intentions.

"If you go forward in good faith doing everything you can and make the investment, then you're partners," Mr. Cullen said. "Sometimes partnerships in business work, and they work for 60 years. And in some cases, they don't, and it doesn't make you a bad partner."

Some towns that are still dealing with the fallout of plant closings might disagree. In Pontiac, Mich., tax revenues have fallen 40 percent since 2009 after the old G.M. knocked down buildings on its property, resulting in lower tax assessments, according to the city's emergency manager.

In Ypsilanti, an entity set up to sell off G.M. property is marketing the plant as valuable. At the same time, it has been arguing for lower property taxes on the grounds that its plant is not worth much.

Ypsilanti's supervisor, Brenda Stumbo, said the township would be stung hard by further revenue cuts. Ypsilanti has already slimmed down its Fire Department, and city workers are juggling multiple jobs. There are seven to 10 home foreclosures a week, giving the township the highest foreclosure rate in the county, Ms. Stumbo said.

"Can all of it be traced back to General Motors?" she said, listing auto suppliers that closed after G.M. did. "No, but a great deal of it can."

Nonetheless, Ms. Stumbo said that if G.M. would bring jobs back to town, she would be willing to grant the company more incentives.

But Mr. Winters is not so sure. He said he would never support more incentives without stronger protections for Ypsilanti. "They've done a lot of damage to a lot of people and a lot of communities, and they've basically been given a clean slate," he said. "It's a 'get out of jail free' card."

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Lines Blur as Texas Gives Industries a Bonanza

By LOUISE STORY

DALLAS — The Preston Hollow neighborhood has been home to many of Texas' rich and powerful — George and Laura Bush, Mark Cuban, T. Boone Pickens, Ross Perot. So it is hardly surprising that a recent political fund-raiser was held there on the back terrace of a 20,000-square-foot home overlooking lush gardens with life-size bronze statues of the host's daughters.

The guest of honor was Gov. Rick Perry, but the man behind the event was not one of the enclave's boldface names. He was a tax consultant named G. Brint Ryan.

Mr. Ryan's specialty is helping clients like ExxonMobil and Neiman Marcus secure state and local tax breaks and other business incentives. It is a good line of work in Texas.

Under Mr. Perry, Texas gives out more of the incentives than any other state, around $19 billion a year, an examination by The New York Times has found. Texas justifies its largess by pointing out that it is home to half of all the private sector jobs created over the last decade nationwide. As the invitation to the fund-raiser boasted: "Texas leads the nation in job creation."

Yet the raw numbers mask a more complicated reality behind the flood of incentives, the examination shows, and raise questions about who benefits more, the businesses or the people of Texas.

Along with the huge job growth, the state has the third-highest proportion of hourly jobs paying at or below minimum wage. And despite its low level of unemployment, Texas has the 11th-highest poverty rate among states.

"While economic development is the mantra of most officials, there's a question of when does economic development end and corporate welfare begin," said Dale Craymer, the president of the Texas Taxpayers and Research Association, a group supported by busines incentives programs.

In a state that markets itself as "wide open for business," the lines are often bl decision makers and beneficiaries, according to interviews with dozens of state and corporate representatives. The government in many instances is relying o consultants like Mr. Ryan for suggestions on what incentives to grant and which companies should receive them, as well as on other factors that directly affect public spending and budgets, the interviews show.

Mr. Ryan does not claim to be neutral on where the money should go. "It's widely known that I represent a lot of taxpayers," he said in an interview. "I have client relationships with people who hopefully, if they invest in Texas, they'll receive incentives."

Granting corporate incentives has become standard operating procedure for state and local governments across the country. The Times investigation found that the governments collectively give incentives worth at least $80 billion a year.

The free flow of tax breaks and subsidies in Texas makes it particularly fertile ground to examine these economic development deals and the fundamental trade-off behind them: the more states give to businesses, the less they have available in the short term to spend on basic services, a calculation made more stark by the recession.

To help balance its budget last year, Texas cut public education spending by $5.4 billion — a significant decrease considering that it already ranked 11th from the bottom among all states in per-pupil financing, according to recent data from the Census Bureau. Yet highly profitable companies like Dow Chemical and Texas Instruments continue to enjoy hefty discounts on their school tax bills through one of the state's economic development programs.

In the Manor school district, which comprises the town and part of Austin, Samsung has been awarded more than $231 million in incentives from state and local officials. But the recent budget cuts have left the district with crowded classes and fewer programs.

Mr. Perry, who took office at the end of 2000, has been a longtime proponent of lowering taxes. He said in an interview that companies could put the money to better use than the government and would spend it in ways that would create jobs and help Texans.

"Facebook, eBay, Apple — all of those within the last two years have announced major expansions in Texas," Mr. Perry said. "They're coming because it is given, it is covenant, in these boardrooms across America, that our tax structure, regulatory climate and legal environment are very positive to those businesses."

He acknowledged that the state's job growth was not erasing persistent poverty, saying that "we are going to have people that fall through the cracks." He said creating jobs was the best way to help Texans, who "don't want government assistance when they can do it themselves."

But relying on companies does not always turn out well. When Amazon set up a distribution center outside Dallas, it received incentives from the state. Six years later, when the company got into a tax dispute with the state, it shut the warehouse, which employed as many as 2,000 people during its peak season.

Nationwide, a whole industry of consultants has grown up around state efforts to lure companies with incentives. Companies like Ernst & Young, Deloitte and Automatic Data Processing, a payroll company, have divisions dedicated to helping companies search for the best deals.

Mr. Ryan's Dallas-based firm, Ryan LLC, operates in 27 states and seven countries and represents numerous Fortune 500 companies. Texas alone is a big source of business for Mr. Ryan, who has won tax refunds of more than $20 million each for ExxonMobil and Raytheon. This year, he sought similar amounts for Verizon, Freescale Semiconductor and several other companies, according to state documents obtained through an open records request.

At the same time, Mr. Ryan has become one of the state's most generous political donors. He co-founded a political action committee last year that supported Mr. Perry's bid for the Republican presidential nomination and donated $250,000.

Even as business leaders press local governments to give out more incentives, they warn against requiring too much in return.

In Travis County, which includes Austin, commissioners recently passed new rules for companies that receive tax abatements. One requires paying employees $11 an hour, an amount the county considers to be a living wage.

The rules had been contested by the business community. "The more stipulations you put into an agreement, the more complicated it becomes and the less competitive we become," Gary Farmer, a local business leader who runs an insurance company, told the county commissioners at a hearing. "We're concerned about including a living wage into the policy, as we believe that could have a chilling effect on certain companies."

The Money Starts Flowing

When Mr. Perry became governor in 2000, Texas was not a major player in the incentives game. He quickly got his first taste during a bidding war among states when Boeing was hunting for a new location for its headquarters.

Texas ultimately lost to Illinois, which awarded Boeing $52.5 million in incentives, but the episode was a turning point. "We came back in here after we lost that," Mr. Perry said, "and we analyzed our economic development efforts, and that's when we started making some changes."

Mr. Perry got the money flowing through two new cash funds created to recruit businesses. One, the Texas Enterprise Fund, awarded more than $410 million over eight years, according to the governor's office, and the recipients said they would create more than 54,000 jobs. The fund requires companies that do not meet their job targets to return incentive money.

The state has also embraced a popular program that establishes enterprise zones where companies can receive refunds on some taxes they pay in exchange for moving there. The exemption has added up to big money for retailers like Walmart. Not coincidentally, the company has opened stores in similar enterprise zones across the country.

Walmart owed some of its other tax savings to Mr. Ryan, who counted the retailer among his earliest clients in the 1990s. Once an accounting firm, Ryan LLC transformed itself in recent years into a powerhouse focused on corporate tax breaks.

Mr. Ryan is a familiar presence at the state comptroller's office in Austin, which must sign off on many tax breaks. He is known there for his laser focus and forceful negotiating skills. "It's gloves-off, full-frontal assault," said a former official, who requested anonymity because of state confidentiality rules.

Mr. Ryan agrees that he is aggressive, saying that "guys like me are all that stand between the government fleecing taxpayers." He has at times filed lawsuits over tax rules he does not like, including one against the head of the Internal Revenue Service and Treasury Secretary Timothy F. Geithner.

In one of his most lucrative deals, Mr. Ryan in 2006 helped Texas Instruments win tens of millions of dollars in tax refunds, according to the comptroller's office. Ryan LLC often gets to keep around 30 percent of its clients' awards, according to former employees.

That same year, Mr. Ryan was a top donor to the campaign of the comptroller at the time, Carole Keeton Strayhorn, personally giving $250,000, according to campaign finance records. Over the course of Ms. Strayhorn's tenure, Mr. Ryan, his employees and his company's PAC would donate nearly $3 million, including when the comptroller ran for governor, the records show. He and his employees have made campaign contributions to the current comptroller, Susan Combs, totaling more than $600,000.

Ms. Strayhorn declined to comment, and a representative for Ms. Combs said the donations did not affect her decisions.

Since 2000, Mr. Ryan and his wife, Amanda, have contributed over $4 million to a variety of state officials and political causes, including the governor. Mr. Perry declined to comment on

Mr. Ryan, but at a local event in 2010 he called him "the type of visionary that every community wants to have," according to The Abilene Reporter-News.

Mr. Ryan said that he gave to candidates in many states and that his donations brought extra scrutiny, not favorable treatment.

Others see it differently. "When you give money to a state regulator who you appear before, there are potential conflicts of interest," said Craig McDonald, the executive director of Texans for Public Justice, a liberal watchdog group. "And Texas law is way too weak in allowing those conflicts to exist."

Mr. Ryan set his own sights on public office in 2009, running for the Dallas City Council on a platform that pushed cutting public spending. Simultaneously, Mr. Ryan was pursuing state aid for his own company, applying for an enterprise zone designation for his business.

Mr. Ryan lost the race but won the incentive. "In these tough economic times, our city officials must use every tool available to ensure job growth and expand the tax base," he said of the award in a news release.

Mr. Perry has made corporate recruitment a hallmark of his administration. The governor frequently makes trips to cities like Chicago, New York and San Francisco to lure prospective businesses.

During a visit to San Diego in June, he proudly told local officials that about a third of the companies moving to Texas were from California, said Ruben Barrales, the chief executive of the San Diego Regional Chamber of Commerce.

"Governor Perry is here quite a bit," Mr. Barrales said. "He meets with companies. He's letting people know if they're interested in further growth, Texas will greet them with open arms. He's not very shy about it."

Asked if he had qualms about taking jobs from other states, Mr. Perry said, "Competition is what drives this country."

A nonprofit group called TexasOne recommends potential businesses to the governor and then pays for his travel and other expenses during the recruiting trips. The group is financed by large corporations like Shell and AT&T, as well as by consultants like Ryan LLC.

The governor's office allocates the awards, which state records show amount to millions of dollars each year. In the enterprise zone program, 82 of the 222 awards granted from March 2008 to June 2012 went to companies represented by Mr. Ryan's firm, according to public records provided by the governor's office. The list included General Motors, Tyson Foods and the German chemical giant BASF.

Until recently, the cash incentives were overseen in Mr. Perry's office by a top aide, Roberto De Hoyos. In September, Mr. De Hoyos took a new job — at Ryan LLC.

Companies Gain, Schools Lose

Lines of new students show up each August at the public schools in Manor. The town is mostly rural, with fields of hay and cattle in every direction. Some of the students' families came to double up with relatives or friends, others were pushed outward by Austin's gentrification.

Downtown Manor consists of a couple of blocks lined with spots like Ramos Cocina and a smoke-filled convenience store. There are few doctors and no real place to buy groceries.

About six miles away, a fabrication plant for the South Korean company Samsung looms over one of Manor's elementary schools, a symbol of corporate interests juxtaposed with a pillar of public spending. The complex, which makes memory chips for smartphones and other products, includes some of the largest buildings in the area: one covers 1.6 million square feet, or about nine football fields.

Since Mr. Perry took office, companies have seen a drop in their school property taxes because of a special incentives program, as well as an across-the-board cut in the school tax rate. The recession has made the squeeze all the more difficult for schools.

In the Manor district, spending shrank by about $540 per student this year, according to the Equity Center, an advocacy group for Texas schools. The cuts came even as school enrollment has nearly tripled since 2000.

The cracks in financing were on display this summer, as families filled a school cafeteria to register for a prekindergarten program with shortened days. For parents like Tommy and Melissa Sifuentes, the cutback means they have to leave work early or hire a baby sitter. "It's harder," said Ms. Sifuentes, who is still grateful that her son will learn socialization skills at school.

About 80 percent of Manor's students are low-income, according to the E3 Alliance, a nonprofit group in Austin that focuses on education. For about a third of the 8,000 students, English is a second language.

In 2005, Manor's school board gave Samsung eight years of tax abatements worth $112 million as part of the company's incentives package for its fabrication plant. Under the special incentives program, known as Chapter 313, school boards approve tax abatements for companies. The state then reimburses the district for the amounts they give up.

In many districts, the awards were granted after little review. Robert Schneider, a member of Austin's school board, said the district was nonchalant when it gave an abatement to Hewlett-Packard in 2006.

"The board took it as 'we don't lose in this deal,' because we knew we were going to get reimbursed by the state," Mr. Schneider said. "I can tell you there wasn't any analysis done that said, 'Ten, 15 years from now, they will be here and we'll get such and such out of it.' "

School boards statewide have approved abatements worth at least $1.9 billion through the program, according to the comptroller's office. Although the districts are not paying for the abatements themselves, budget experts point out that the reimbursements come from the state's general fund, which like most state treasuries is running low.

In Texas, tax revenues for schools took a direct hit when Mr. Perry created a commission in 2005 to evaluate the state's tax system. The State Supreme Court was questioning districts' property tax rates and warned of a school shutdown if legislators did not intervene. The tax rates had been criticized for years by businesses and residents, but some districts countered that they could not afford to cut them without additional state financing.

Mr. Perry turned to John Sharp, a Democrat and former comptroller, to lead the commission. At the time, Mr. Sharp worked for Ryan LLC. The commission called for districts to cut school property taxes by around one-third. To make up for some of the lost revenue, it recommended adding a business tax, as well as increasing some sales taxes.

"I did what I thought was the best for the state of Texas," said Mr. Sharp, adding that his position at Ryan LLC did not affect his decisions. "We saved the state of Texas from complete collapse of the school system, and I'm very proud of that." Mr. Sharp left Ryan last year to become the chancellor of Texas A&M University.

In 2006, the Legislature largely adopted the commission's proposals and required the state to give districts billions of dollars to allow time for the business tax to make up the difference.

Some six years later, things have not worked out as planned.

The business tax has not yielded anywhere near what Mr. Sharp's panel projected, and the state has cut its aid to the districts by $5.4 billion. A spokeswoman for Mr. Perry noted that one of the state's cash incentive funds was also cut back.

Leslie Whitworth, who oversees the curriculum in Manor, said that the district was doing its best to make do with less, but that "it wears on people, the constant crisis, the constant increases in students and constant pressure on budgets."

Among other things, the cuts have meant overcrowding across Texas: the number of classrooms over the state's student limit nearly quadrupled last year.

Some companies recognize the trade-off. Daimler, the German maker of the Mercedes-Benz, accepts incentives in the United States but tries to avoid ones that come out of school budgets, said David Trebing, who manages the company's relationship with local governments. "We want to make sure they have enough money for their schools," Mr. Trebing said. "Our workers send their kids there."

Even members of the Austin Technology Council, which includes Samsung, identified an educated work force as among their biggest concerns for the area, according to a recent survey.

Of the $231 million in incentives Samsung received, it donated $1 million back to Manor for a scholarship fund. The company also mentors district students.

Catherine Morse, Samsung Austin's general counsel, said the abatements from the Manor school board were crucial because of the company's expensive machinery. Samsung also received $10.8 million from Mr. Perry's cash fund, but Ms. Morse said the money had not swung the decision. "It was more like it showed respect," she said.

Ms. Morse noted that Samsung was still the county's largest taxpayer and that locating the facility in Texas had been a tough sell inside the company. "It was very unpopular to take jobs out of South Korea," she said.

Samsung said it had created 2,500 jobs on its payroll and 2,000 more for contract employees. Ms. Morse said that 495 of those on its payroll lived in the Manor school district. The company is currently seeking additional incentives for a $4 billion retooling of its facility, though it is not expected to add many jobs.

Amazon Plays Hardball

Tarik Carlton gathered with other workers in February 2011 to hear the bad news: Amazon was shutting its distribution center in Irving, where he loaded trucks for $12.75 an hour.

Business had been strong, but the online retailer did not want to pay a $269 million tax bill from the state comptroller. A standoff with the state ensued, and Amazon laid off the workers. "They didn't have our interests in heart, truth be told," Mr. Carlton said.

Amazon opened the distribution facility in 2005 in Irving, near Dallas-Fort Worth International Airport, and local officials awarded the company tax breaks on its inventory.

Positions at the warehouse included product pickers, dock crews and truck loaders. The employees were typically on the young side, and some had served in the military. The warehouse churned through workers because many could not meet the quota of products they were supposed to move each day, according to Frankie Lloyd, who helped Amazon find temporary workers to fill many of the jobs.

"It's all about what you can do physically," Ms. Lloyd said. "Like manufacturing, but without the great pay."

The distribution business grew as manufacturing moved overseas and online shopping boomed. It is big in the Dallas area because two main train lines run here from Long Beach, Calif., where goods arrive from Asia.

The work is highly physical. One Amazon worker wore a step counter that logged five miles during one shift, according to Mr. Carlton, who only recently found a new job. He was among 12 former Amazon workers, including two warehouse managers, who agreed to be interviewed.

There was no air-conditioning in the warehouse, and Mr. Carlton and others said the temperature could reach 115 degrees. They said it was difficult to take breaks given the production quotas.

The pay was typically $11 to $15 an hour, Ms. Lloyd said. Amazon gave out small shares of stock and some bonuses, but the amounts were minimal, she said.

Amazon said it had been working to upgrade its warehouses, which it calls fulfillment centers. The company has installed air-conditioning in all its centers over the past year, said Dave Clark, the vice president for global customer fulfillment.

Mr. Clark said workers always received breaks, and sometimes free ice cream when the facilities did not have air-conditioning. He said the quotas were akin to "expectations that go along with every job, mine included."

"I really do think these jobs get a bad rap," Mr. Clark said. "They're great jobs. They're safe jobs."

Mr. Carlton said he had no idea the company was being partly subsidized. "If you give them money, I think more should be expected," he said, adding that Amazon should have been required to hire more people to handle the heavy workload.

John Bonnot, the director of business recruitment for the Irving Chamber of Commerce, said the city did not impose wage or benefit requirements on companies that received incentives. Irving had required that Amazon create only 10 jobs to receive the tax break.

Mr. Bonnot said Amazon "would have nothing but praise" for the original assistance from the state and the city, which outsources its economic development to the local chamber.

Things began to slide downhill in late 2010 when the state comptroller, Ms. Combs, demanded that Amazon pay the $269 million sales tax bill. The retailer had never charged its Texas customers the tax, giving it an advantage over on-the-ground competitors.

The company hired three powerful advocates with ties to the governor, according to state lobbyist disclosure records. One, Luis Saenz, had been the director of Mr. Perry's political operation. Days after the warehouse closed, Mr. Perry said he disagreed with the comptroller's decision to demand the taxes.

As it was battling with the comptroller, Amazon began negotiating with the Legislature, which was debating whether online businesses should be required to charge sales tax. The company told lawmakers that it would create up to 6,000 jobs in exchange for delaying sales tax collections, similar to a compromise it had struck in states like South Carolina and Tennessee.

The lawmaker with the most power in the decision was John Otto, a Republican member of the Texas House of Representatives. Like all Texas legislators, Mr. Otto's government job is part time. He also works at Ryan LLC — a job that is not disclosed on his legislative Web site.

Mr. Otto drafted legislation that said online retailers like Amazon would not have to charge sales tax as long as it did not have distribution facilities in Texas. By then, the company had already shut the Irving warehouse.

Mr. Otto and Mr. Saenz declined to comment about the legislation. Amazon would not comment on its negotiations with Texas.

In July, Amazon began collecting sales tax from customers in Texas after the comptroller agreed to release the company from most of its $269 million bill. The company has also promised to open new distribution facilities and hire 2,500 workers. Amazon will owe the state a $1 million penalty if it fails to deliver.

The math on the new deal angers former Amazon workers, especially those who are still unemployed. For Texas to give up more than $250 million in tax revenues in exchange for 2,500 jobs amounts to about $100,000 per job. Most distribution workers are paid $20,000 to $30,000 a year. The rest benefits the company's bottom line, which generally increases executive bonuses and shareholder returns.

King White, a consultant who helps Amazon choose locations, would not comment on the online retailer but said that companies in general had come to view incentives as entitlements. "Everybody thinks they deserve something," Mr. White said. " 'If I'm creating jobs, what's in it for me?' "

The deal on the sales tax did not require Amazon to reopen the Irving facility. That touched off the latest state competition to win over Amazon.

Last month, the city of Schertz beat out neighboring San Antonio for one of Amazon's warehouses. The company is currently in negotiations with Coppell, outside of Dallas, about an additional center. Like Schertz, Coppell has offered Amazon a deal to keep a part of the sales tax it collects there, among other incentives.

If Amazon accepts, it will be located near Irving and many of its former workers. Sharon Sylvas, 47, had moved from Kansas seven years ago to help Amazon set up the Irving facility. She lives nearby in a one-bedroom apartment with her partner, daughter and two grandchildren.

After Amazon closed, she was out of a job for over a year. With limited options, Ms. Sylvas took a temporary position in October at another company's distribution center. It is a tougher job than the one at Amazon, and it pays less. For $11 an hour, Ms. Sylvas moves heavy inventory and other items.

She said that if Amazon returned to the area, she would work there again, despite the rigors of warehouse jobs. "It's real miserable," Ms. Sylvas said. "But you do it to make a living."

Both Player and Referee

For the past few months, a commission created by the Texas Legislature has been taking a broad look at the state's economic development efforts. It will report back in January with recommendations. Four members of the commission are specifically focused on evaluating the state's cash grants and the school tax abatement programs. This means that companies in Texas have a lot at stake in the panel's work.

So does at least one of the commissioners: G. Brint Ryan.

He was appointed to the commission by the state's lieutenant governor, David Dewhurst, who has received more than $150,000 in campaign donations from Mr. Ryan.

At a meeting in mid-September, the panel invited business representatives to testify. Among them was Ms. Morse, the general counsel at Samsung Austin, who urged the commission to continue the school property tax program that benefits her company in the Manor district.

During Ms. Morse's testimony, it went unmentioned that Samsung is a Ryan client. Ryan LLC had helped the company gain designation as an enterprise zone in 2010, enabling it to receive sales tax refunds from the state on many of its purchases, according to documents obtained by The Times under a public records request.

Mr. Ryan said the commission had never asked him whom he represents.

No representatives from Texas schools spoke at the hearing. But Mr. Ryan said in an interview that school financing and poverty could best be addressed by emphasizing economic activity. He noted his own humble beginnings. "Frankly, I never got one single government handout," he said.

Over the years, of course, Mr. Ryan has profited by helping many companies obtain checks from the government. In at least one instance, he was more eager to get the money than his client was.

The client, a computer chip maker called Advanced Micro Devices, had hired Mr. Ryan's firm to review its books. But when the firm found what it believed would be a way to save more than $30 million in taxes, the chip maker decided it was not worth pursuing. Ryan LLC responded by suing its client, saying AMD owed it to the firm to seek the money. Ryan LLC would have received a cut of the savings.

AMD declined to comment on the case, which was settled last year. But in a deposition contained in the court filings, a representative of the chip maker described numerous e-mails and phone calls by Mr. Ryan, who was trying to persuade the company to file for the refunds.

"It's continuing evidence that they've placed their interest above our own and continued to press this issue," the representative said. The company said Ryan LLC's behavior "bordered on harassment."

At one point, Mr. Ryan wrote to the chip maker's chief financial officer. "At stake is tens of millions of dollars in tax recovery and future tax savings on an issue I have WON for other fabs in Texas," he said, referring to fabrication facilities.

The company's choice not to seek the tax break, Mr. Ryan said in a deposition, was an "irrational and unreasonable decision."

Lisa Schwartz and Lauren D'Avolio contributed research.

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Michigan Town Woos Hollywood, but Ends Up With a Bit Part

By LOUISE STORY

PONTIAC, Mich. — Even the great and powerful Oz could not save the film studio that was supposed to save this town.

The studio, a state-of-the-art facility fit for Hollywood blockbusters, had risen from the ruins of a General Motors complex here. It was the brainchild of a small group of investors with big plans: the studio would attract prestigious filmmakers, and the movie productions would create jobs and pump money into the local economy. A glamorous sheen would rub off on this down-on-its-luck town.

But in Pontiac, happy endings do not usually come Hollywood-style. The tale behind the studio, though, was cinematic in its own right, filled with colorful characters, calls from the White House and a starring role for Michigan's taxpayers. Rounding out the cast was a big-budget Disney movie, "Oz: The Great and Powerful."

It all started back in August 2007, when Gov. Jennifer M. Granholm met with Mike Binder, a Michigan-born actor and director who was lamenting the state's lackluster program to award financial aid — otherwise known as film credits — to the movie industry. Ms. Granholm, an aspiring actress when she was in her early 20s, became determined to make Michigan competitive, she recalled.

Eight months later, the capital of the flailing auto industry became the capital of film tax credits. For every dollar spent locally, filmmakers would receive almost half back from Michigan. That sort of money turns heads at even the richest film studios, and word spreads fast. Janet Lockwood, the director of the state's film office, said that a week after the enhanced credits were announced, she was besieged at a movie conference in Santa Monica, Calif., by "the baby studios to the big guys."

Hollywood may make movies about the evils of capitalism, but it rarely works incentives, which are paid for by taxpayers. Nationwide, about $1.5 billion in t awarded to the film industry each year, according to a state-by-state survey b Times.

Within two months, 24 movies had signed up to film in Michigan — up from two the entire year before. The productions estimated that they would spend $195 million filming there, and in return they would be refunded about $70 million in cash.

Before long, residents were rushing out on their lunch breaks to catch a glimpse of celebrities like Drew Barrymore, who was filming her movie "Whip It" in Ann Arbor, and Clint Eastwood, who was shooting "Gran Torino" in the Detroit area. Even Michael Moore, who was filming a movie about corporate welfare called "Capitalism: A Love Story," sought and received incentives.

A 'No-Brainer' for Michigan

It was a time when most financial news was bad. Housing prices plunged, and thousands of automobiles went unsold. Michigan was facing growing budget shortfalls, and some lawmakers who voted for the film credits soon began questioning whether the state could actually afford them.

In Pontiac, tax revenue plummeted as General Motors pulled out and workers left. Half of downtown was boarded up, and landlords accepted rent checks through slits in doors locked for safety. For some, Hollywood provided distraction and hope.

By 2008, a plan was being hatched for what would become the movie studio in Pontiac. The man behind it, Linden Nelson, was a well-connected local entrepreneur with a charismatic personality. He had made a name for himself by creating the removable key chain for valet parkers in the 1980s. His company later manufactured promotional trinkets for brands like AT&T and Harley-Davidson. In the late 1990s, Mr. Nelson found himself in the headlines when a fire broke out at his office in Beverly Hills, Mich. It was ruled accidental.

Mr. Nelson got the idea for the studio, he said, from his college-age son, who had heard that the Michigan tax credits were the talk of the Cannes Film Festival in France that year. Mr. Nelson soon met an old friend, Ari Emanuel, over coffee in Aspen, Colo., to discuss the idea. Mr. Emanuel was the force behind what would become William Morris Endeavor Entertainment, and his fast-talking, take-no-prisoners style had been immortalized in HBO's "Entourage." His brother Rahm would soon be named the chief of staff to President Obama.

Intrigued, Mr. Emanuel did not take long to sign on. "I'm, like, blown away by it," he told a gathering of the Detroit Regional Chamber of Commerce. "Not to use an L.A. phrase — I think this is a no-brainer for the state of Michigan."

Motown Motion Pictures LLC was incorporated in May 2008, and two more partners came on board. One, John Rakolta Jr., had building expertise as the head of a commercial construction company. The other, A. Alfred Taubman, was a longtime friend of Mr. Nelson and a prominent investor who made billions building shopping malls nationwide.

Mr. Taubman is among the most generous donors to universities and institutions in Michigan and elsewhere. He went to prison for nearly 10 months in 2002 over price-fixing accusations related to Sotheby's auction house, which his company owned. He has maintained that he was innocent.

When Mr. Taubman first visited the vacated General Motors site in Pontiac, he was brought to tears. "What happened to all the people?" he said, according to Mr. Nelson, who was at his side. "Where are the cars? What happened to their families?"

In early 2009, the four investors bought the property from G.M. for "virtually nothing," said Mr. Rakolta. General Motors, which had just received a hefty federal bailout, "spent more on the carpet than we spent on this building," he said.

The investors agreed that they would put in a total of $10 million to $12 million of their own money, according to the studio's chief financial officer. They would pay for the rest — $70 million or so — using borrowed money and state and federal incentives. "Michigan's current tax incentive program appears to be the largest competitive advantage for the company," one studio document said.

Ms. Lockwood, the film commissioner at the time, said she visited Mr. Taubman's office in early 2009. Over lunch served by a butler, Mr. Taubman filled her in on the plan. "He believed that there was money to be made," she recalled.

A Town on the Ropes

In public, the investors extolled the studio as an altruistic effort on behalf of Pontiac. "I go into things to make money, but on this, I don't really care," Mr. Taubman told The Detroit Free Press. "I just want to help create jobs, and this can create 3,600 jobs."

Pontiac desperately needed them. In March of that year, roughly one of every two residents was without work, according to federal data. Food pantries had record requests. Pontiac was consistently listed among the top 10 most dangerous cities by the F.B.I. The city had made national news when a group of teenagers approached homeless people on the street and beat them to death.

Ms. Granholm declared the city in a financial crisis in February 2009 and appointed an emergency manager, Fred Leeb. The city's budget was $54 million a year, but it was overspending by an estimated $7 million to $12 million. Pontiac was also still weighted down by old incentives it had given to businesses like G.M.

The movie studio was an added challenge, since it was seeking financial incentives from the city — not to mention from other branches of the government. It won redevelopment tax credits from the federal government and separate aid from the state that included incentives for technology companies that hire residents.

Job creation became a point of contention with beleaguered Pontiac, which was being asked to waive virtually all property taxes for the studio. The investors claimed that thousands of people would be employed, but Mr. Leeb said that when he asked for job numbers to be written into the contract, the investors refused. "We started seeing some backpedaling," said Mr. Leeb, who added that the negotiations featured "knock-down, drag-out fights."

Mr. Nelson said he did not recall that request, but added that his company could not have guaranteed jobs anyway, since they were mainly supposed to be created by filmmakers renting out the studio.

Under pressure from the governor's office, Mr. Leeb said he had little choice but to approve the investors' requests.

Ms. Granholm announced the project in her 2009 State of the State address, saying she thought the industry would create a flood of new jobs. "It was very exciting," recalled Ms. Granholm, a Democrat. "A classic transformation, the phoenix rising from the ashes. This plant in Pontiac — it was a really great moment for a community that really wanted and needed hope."

That summer, as the studio moved forward, Mr. Nelson was in local headlines for a second fire, this one at his 23,000-square-foot lakefront home in Bloomfield Hills. The fire extensively damaged the home, and its cause was not determined. Mr. Nelson declined to discuss it.

Not long after, he and the other studio investors hit a major hurdle. They would be borrowing around $18 million in municipal bonds, but they needed someone to back them.

Over the objections of some local officials, the state agreed to use the state workers' pension funds to guarantee the bonds. If the investors failed to pay, the retirees would be on the hook.

At the time of the deal, the governor was speaking regularly with Mr. Obama, who was negotiating the General Motors bailout. Edward B. Montgomery, who was leading the White House's efforts on communities and workers affected by the automaker's bankruptcy, was engaged on the studio plans.

Mr. Montgomery said in an interview that he had expressed support for the studio and other projects that he believed would help diversify Michigan's economy. He said the studio's investors received assistance from the Treasury Department to qualify for a federal tax credit program. Mr. Montgomery said he was unaware of the bond guarantee involving the state pension fund.

On July 27, 2010, the governor and other officials gathered for the studio's groundbreaking. Also on hand were Hollywood players like Mr. Binder, a creator of HBO's "The Mind of the Married Man," who had been instrumental in persuading the governor to expand the film subsidies.

Mr. Nelson, the studio's main impresario, talked up the job numbers on local radio that day and said the incentives were necessary. "It's a very competitive landscape out there," he said. "There are very, very competitive rebates going on with other states. People don't realize this, but 40 states have some kind of rebate or another in this industry. It's an industry that's fought after."

Even as Michigan celebrated the studio, the Motion Picture Association of America was facing criticism of the use of film credits in a report by a Washington tax research group. The film association estimated that the industry employs just over two million people and supports 115,000 businesses. The report, conducted by the nonprofit Tax Foundation, which opposes film incentives, said that states justified them using "fanciful estimates of economic activity."

The Pontiac studio was complete by the summer of 2011. Its first big production moved in after being awarded about $40 million from the state — the largest single movie payout yet. The Disney "Oz" film was being directed by Sam Raimi, a Michigan native who made the recent "Spider-Man" movies.

Over the coming months, the studio's seven stages were filled with a yellow brick road and a haunted forest. The designers planted live grass and built a huge waterfall and pond where James Franco, the star of the film, could land in a hot-air balloon. Perhaps the most elaborate set was the courtyard around the good witch Glinda's castle, which took 75,000 hours of work to build and used $9 million worth of wood, according to Mr. Nelson.

Sahir Rashid, a 35-year-old production assistant and Detroit resident, said that walking into the studio had been overwhelming. It was his first time on a soundstage, and he was thankful that the state's movie boom allowed him to give up construction work. "For me, the films saved my life," he said. "It's not a dead-end job. It's actually a career."

As for the crew and actors, "the majority of them I think were from L.A.," said London Moore, a local actress. Ms. Moore was the body double for Michelle Williams, who was playing Glinda. "I went into this thinking these people were probably going to be stuck up, but they welcomed me with open arms. They are like a family to me."

Film Jobs Prove Scarce

The studio had created only 200 positions by the summer of 2011, according to correspondence between the company and local officials. And when temporary construction workers were excluded from the tally, Pontiac's records show, the studio reported only two employees in 2010 and 12 the next year. The studio's chief financial officer said it had not been able to cash in on $110 million in tax credits that were contingent on creating jobs. But the studio did cash in on other credits, including $14 million for a "Film and Digital Media Infrastructure Investment Tax Credit," he said.

As the "Oz" shoot was under way, Pontiac moved on to its third emergency manager, Louis Schimmel, and he was not a fan of incentives. A former municipal bond analyst, Mr. Schimmel spent decades warning Michigan towns against trading tax revenues for jobs. "I'm just about the biggest critic of these programs, because giving away the taxes of the city is so detrimental," he said. "The money is needed for police, fire and trash pickup."

Mr. Schimmel said Disney had offered to prepay its workers' personal income tax to the city, but Pontiac declined. The city later had problems collecting some of the taxes because Disney operated through a separate business entity that was difficult to track down, he said.

"This is a glamorous industry if you want to talk about Hollywood, but it's not very glamorous for the municipality that wants to collect something," Mr. Schimmel said. Pontiac, he said, was outgunned.

Disney declined to comment. Mr. Nelson said the studio and Disney were responsive to the city.

Mr. Schimmel was not alone in his opposition to incentives. Michigan elected a new governor in 2010, Rick Snyder, a Republican who believed that it made better sense to lower taxes for all businesses. The governor's budget director, John Nixon, said in an interview, "States harm themselves by competing on tax credits." The governor quickly began reining in the program.

Almost immediately, filmmakers pulled out of Michigan. The change hit hard at "Hollywood-land in Pontiac," as Mr. Nelson sometimes refers to his studio, now called Michigan Motion Picture Studios. He said the makers of "Iron Man 3" had been considering filming there but opted for North Carolina after Mr. Snyder slashed incentives.

When the bill for the studio's bond interest came due in February this year, it paid only a portion, $210,000. The state pension fund had to pick up the remaining $420,000. Mr. Nelson said he and his partners would have made the payment if the state had not changed the tax credit program. "No one would have missed a bond payment," he said. "No one would have missed anything."

The situation is galling to even longtime government officials, who over the years have seen plenty of economic development deals fail. "Taubman could write the whole check for that himself," said Doug Smith, an official at the state's economic development agency. The state pension fund may "end up owning these studios," he said.

One of the development agency's board members is Mr. Rakolta, the construction executive who invested in the Pontiac studio. He and Mr. Nelson said in separate interviews that they had never considered personally paying for the bond interest. A deal is a deal, they said, and the state agreed to cover the bond. The studio's chief financial officer said the investors already stood to lose twice as much as they originally intended to invest.

A spokesman for Mr. Emanuel said he was not willing to discuss the situation on the record. A spokesman for Mr. Taubman said he was unavailable.

In August, the studio defaulted on the entire $630,000 payment on the bond, despite a decision by Mr. Snyder to temporarily allocate some film incentives.

The investors are lobbying state lawmakers to put more money into the tax credits and have formed a political action committee. Donating to the PAC are the four investors; Mr. Emanuel's agency, William Morris Endeavor; and the Teamsters union. To rally public support, the studio offers public tours. "Please don't hesitate to contact your state representative," Mr. Nelson tells visitors. "Tell them you've been here, you believe in it, so please appropriate enough money so it will work."

Mr. Nelson said that if the state did not improve the incentives, the Pontiac studio would probably shut down. For now, the soundstages are empty. Filming wrapped up last month on a Warner Brothers movie called "Black Sky." It is about a town ravaged by deadly tornadoes.

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