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Nashville is basically broke, but that didn't stop it from luring Oracle with lavish incentives. Other small cities are also paying top dollar to compete for Big Tech.

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Raleigh, Austin, and Nashville dangle cash and other incentives in front of big firms like Apple and Oracle to entire them to open offices there. It's working — but at a hefty cost. siraanamwong/Getty Images; Apple; Oracle; Taylor Borden/Insider

- **Nashville, Austin, Raleigh, and Miami grant incentives to firms like Oracle and Apple to move there.**
- **The payouts have become key as once secondary cities compete with each other for major offices.**
- **Watchdogs worry that municipalities, sapped by the pandemic, can't afford to dole out so many perks.**

To lure Oracle to Nashville, the city's Mayor John Cooper took a red-eye flight early last year to meet with the $200 billion software and technology company's chief executive, Safra Catz, in Redwood Shores, California and pitch her in person on the draws of the Tennessee capital.

The visit may have played a role in wooing the company, but there was also the lure of cold, hard cash.

Earlier this month, Oracle announced it will build a $1.2 billion office complex across the Cumberland River from downtown Nashville that will employ 8,500 workers. The company could receive a grant of up to $60 million — one of the biggest-ever incentive payouts to a tenant by the state.

The city also agreed to pay back Oracle for about $175 million worth of infrastructure it plans to install on and around its site through a property tax reimbursement, which is up for local approval next month.

Once secondary cities like Nashville — plus Austin, Texas; Raleigh, North Carolina; and Miami, to name a few others — had already begun to gain notice in recent years from major corporate occupiers for their lower costs of living, better quality of life, and abundant local talent.

As their popularity has continued to surge during the pandemic, so too has the competition between them to lavish tax savings, cash grants, and other incentive benefits to win over major office tenants that create coveted jobs and economic activity.

North Carolina, for instance, just handed out nearly $850 million, one of its biggest tenant incentives ever, to Apple. Over $100 million of cash grants and tax discounts were awarded to Amazon for an operations center it is currently building in Nashville. And in Texas, $24 million was given to Uber for its recent headquarters relocation to Dallas.

"Oracle saw a lot of parallels between us and Austin," said Cooper, referring to the company's decision to relocate its headquarters from California to the booming Texas capital last year. "And we see a lot of tenants who are making a decision between us and them, or Dallas, or North Carolina."

How Raleigh lured Apple to North Carolina

Earlier this week, Apple said it reached a deal to construct a more than $1 billion research and development campus outside Raleigh that will employ 3,000 workers. To help secure the deal, North Carolina offered its richest-ever job-development investment grant, a discretionary incentive program administered by the state's Department of Commerce that is known by its acronym JDIG.

Apple will receive up to $845.8 million in cash over 39 years through the program. David Rhoades, a spokesman for the state's Department of Commerce, said the deal was a net revenue win for the state, which projects Apple employees working at the site will pay about $2 billion of income taxes over the 39-year span. The company will pay additional corporate taxes over that period, he said.

"It's worth noting that we're rigorous in validating these commitments," Rhoades told Insider, explaining that the state would closely monitor Apple to ensure it meets investment and hiring targets required by the deal to receive the JDIG program's awards, which are doled out incrementally.

Raleigh Mayor Mary-Ann Baldwin described the lavish JDIG payout as necessary to winning over a coveted company like Apple.

"We have competed with Austin and Nashville and other peer cities for these types of projects," Baldwin told Insider. "Where we landed was, we wanted to make this happen — and we were going to come to the table and negotiate. This time, we came in with a more aggressive attitude."

Baldwin was referring to 2018, when Apple previously had considered opening a facility in North Carolina only to pass over the state in favor of expanding in Texas instead, where it subsequently received $25 million in government incentives.

Offering companies cash rewards can strain already tight budgets

Just as Amazon did in 2019 when it launched a national search for a second headquarters, wily corporate tenants have long pitted municipalities against one another to extract benefits.

Amazon drew the ire of watchdogs like the Beacon Center in Tennessee, a nonprofit public-policy and fiscal-research group, for the $102 million it received in city and state incentives to open a 5,000-worker operations center in downtown Nashville in 2018 that it is now under development.

Experts have raised concerns that as the competition grows between cities, incentives for what are already some of the richest corporations could become more generous at a time when government can least afford it. State and local budgets had yawning gaps amid the pandemic, which decimated business activity and revenue.

"For years, we have seen cities feel the need to use incentives to outbid each other," said Ron Shultis, the director of policy and research at the Beacon Center.

Nashville has about $3.5 billion worth of municipal debt, and Tennessee carries about $2 billion of debt, according to the Beacon Center.

"Nashville was and still is in a budget crunch," Shultis said. "It's effectively broke."

Shultis pointed to the financial firm AllianceBernstein's decision to relocate its headquarters from midtown Manhattan to Nashville in 2018. The company made the move despite being offered more incentives elsewhere.

"AllianceBernstein chose Nashville even though the state was offering $17.5 million in incentives and the city was offering $3.7 million, compared to $30 million being offered by Charlotte," Shultis said. "They ended up choosing Nashville. It shows that these companies are going to choose where they want to go anyway and these incentives really play very little impact."

Leaders of cities on the rise feel they need to pay to compete

But withholding money is difficult for municipalities that are hungry for jobs, economic growth, and who are trying to solidify themselves as destinations for incoming office users — especially as other areas of the country dangle offers.

The Miami Downtown Development Authority (DDA), for instance, recently gave preliminary approval to provide a modest $150,000 cash grant to what it described as a "venture-equity" firm that was seeking 80,000 square feet of office space to relocate its operations from New York City, according to a document from the agency provided to Insider by a source. The grant would be provided as part of the Miami DDA's "Follow the Sun" program, an incentive it unveiled in October to help the city attract companies.

According to the DDA document, the venture-equity firm is also considering a move to Austin.

"The incentives don't drive decisions alone, it's really an illustration of support and saying to a company, 'Hey, we're a business-friendly place, and we value you,'" said Alan Kleber, a Miami executive managing director with the commercial real estate services firm JLL. "A company can be insulted when a city doesn't acknowledge the economic value they add."

States are piling onto the already generous city incentives

Florida's Legislature, meanwhile, is considering the reinstatement of a wider state incentive program called the qualified target industry tax refund, which expired in June, according to Katie Betta, the deputy chief of staff for state Senate President Wilton Simpson. It allows participating companies up to $1.5 million of tax refunds a year. Other states are also earmarking dollars for incentives.

Tennessee legislators have proposed over $102 million for the state's FastTrack program, which awards cash grants to office tenants, in the upcoming budget. That would be an increase from $65 million in the 2020-21 fiscal year and from $100 million spent in the pre-pandemic 2019-20 budget, according to the Beacon Center's Shultis. The $60 million cash grant that is being considered for Oracle would be in addition to that $102 million sum in the budget.

The Texas Enterprise Fund, an economic-development agency that has awarded nearly $680 million in cash grants to tenants since its inception in 2004, is waiting on the state Legislature to reauthorize $190 million in cash remaining from funds it had previously been appropriated for incentive spending, according to its executive director, Adriana Cruz. The agency provides between $1,000 and $10,000 per job relocated to or created in the state, depending on a host of factors, Cruz said, including the wage levels, the capital investments being made by the company, how quickly the jobs are created, and the industry type.

John Lenio, an executive vice president and economist at the real estate services firm CBRE who works within the company's incentives group, said he expected

Texas Governor Greg Abbott to not only reauthorize the $190 million sum for the fund but potentially allocate additional funds to it at a moment when the state has grabbed interest from a host of major corporate names.

"The funding is being reviewed again in the current legislative session, and we understand Governor Abbott is seeking a potential funding increase," Lenio said. "Given the recent strong economic growth in Texas and expected significant interest in the state in the foreseeable future, it appears there should be legislative support for the funding request."

Cruz said the Texas Enterprise Fund has had a surge of interest from companies seeking to move to Texas or expand, some of whom may be eligible for the discretionary cash grants it can award.

"We have 245 active prospects right now," Cruz said. "In a normal year, it's 140."

Cruz described the payouts not as a race to outspend other municipalities, but as the "cherry on top" — modest sums that are used to help close out deals that create economic activity beneficial to the state on balance.

"The Texas Enterprise Fund is just one of the tools in our toolbox," Cruz said. "Because incentives do play a role at the end of the process when a company knows the quality of life is great and the workforce is what it needs. When everything else is equal between us and another state, that incentive could be the difference."