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A Cautionary Tale from Nevada's Desert-People Before Company: A Case Study on Economic Development Approaches in Nevada

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A CAUTIONARY TALE FROM NEVADA'S DESERT- PEOPLE BEFORE COMPANY: A CASE STUDY ON ECONOMIC DEVELOPMENT APPROACHES IN NEVADA

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ABSTRACT

This project utilized a mixed methods research design consisting of a case study of Nevada to explain the state's reliance on company-based government incentives to attract new businesses to the state. Additionally, the project applied a comparative analysis of Brazil's and Tennessee's use of company-based government incentives, and a more detailed comparative analysis of Virginia's people-based government incentive approach to economic development incentives to explore policy alternatives available to decision makers. This project used the historical institutionalism approach to show how policymakers have certain institutionally dominated predispositions impacting policy outcomes leading to a path dependency where rational choice theory's credit seeking behavior further reinforces the desire to provide company-based incentives over people-based incentives. Additionally, this project discussed how the creative class theory provides an alternative approach to help channel policy preferences toward people-based incentives for policymakers prone to rent seeking corporations pursuing company-based incentives.

The concept and definition of workplace is changing. The connectedness of global markets and supply chains combined with advanced technology are disconnecting companies from specific geographic locations giving them an increasing ability to more freely expand or relocate. Business closures, realignments, and work from home protocols associated with the COVID-19 global pandemic have further transformed, if not destroyed, the notion of workplace and corporate commitment to local. The comparative analysis of this project informs policymakers facing this new reality by evaluating whether

prospective companies prefer government investments in company-based economic development or investments in people-based economic development.

This project used a case study of Tesla's September 2014 decision to build its first Gigafactory for manufacturing batteries in Sparks, Nevada. The project also compared Amazon's September 2017 decision to build its HQ2 corporate headquarters in Arlington, Virginia. More specifically, the project highlighted the lessons Nevada and other state's beginning to establish and implement economic development tools, designed to attract new enterprise to their state, can learn from states more experienced and successful in economic development endeavors. The primary units of analysis for this project were the metro areas of Reno, Nevada; Las Vegas, Nevada; Washington, D.C. Metro Region; and the surrounding areas impacted by the project, and the state. The case study of Nevada offered a unique perspective and contribution to existing literature in urban affairs and public policy, if not a laboratory for study, as a state with a rich tradition of reliance on stable historic rent seeking enterprises suddenly pivoted and realigned state law and institutions to diversifying its economy following the Great Recession. As one of the least diverse states in the Nation, Nevada provides a blank canvas to analyze the evolution of government institutions, public policy, and the effectiveness of incentives designed to attract new diversification. The comparative analysis of Amazon in Virginia provided strong comparative value to understanding policy evolution and the value businesses place on people or company-based economic incentives. Additionally, the Amazon analysis looked at the company's bifurcated decision to locate in Virginia and New York and how those states used company- and people-based approaches to attract their part of the opportunity. Following a more traditional incrementalism approach where inherently stable institutions of policy subsystems develop over time, Virginia made significant historical investments in people and utilized smaller company-based incentives to attract business.

This project utilized content analysis, in-depth semi-structured interviews, and document analysis of legislative records. This study adds to existing literature on company-based and people-based economic development by highlighting the key metrics most likely to attract economic development and what a state needs to do to overcome structural deficiencies within the key metrics to determine how steady and historical investments in people-based economic development impact the need to come to the table with aggressive company-based incentives to attract new economic development. The study also provides guidance for state and local governments creating public policy to diversify their economies and compete at the national level for businesses looking to expand or relocate. In light of the more frequent migration practices of business, it is important for policymakers to understand that the world, especially a post-pandemic world, does not have the same historical necessity to stay in place, meet in place, or manufacture next door; businesses can move and relocate. Policymakers, unaware of this growing reality, will get caught up in a never-ending reshuffling of businesses moving into a state until the government subsidy runs out and then simply relocate to another state chasing the next big subsidy. In light of this new reality, the project highlights the need for policymakers to invest in their people now or pay for it later at a much higher cost in both dollars and lost opportunity.

ACKNOWLEDGEMENS

I would like to acknowledge my family, friends and colleagues for their constant encouragement, support and patience with this project. First, to Dr. Robert Lang who was one of the first individuals to encourage me to embark on this undertaking. Serving as my committee chair for this project until his untimely death, he motivated and encouraged me- I hope he is proud of this effort. Inspired by his scholarly work and passion, this project seeks to hold policymakers accountable and provide them information to learn from our shared past as we progress forward together.

Second, to the incredible faculty members at the University of Nevada, Las Vegas. My time at UNLV in both the Department of Political Science and the School of Public Policy and Leadership have been professionally rewarding and have provided a substantive and productive release from the rigors of my professional life. Countless times, I have been able to take information learned in the class room and immediately operationalize and apply it in my professional endeavors. I have valued this relationship of real time application, and as a lifelong student I will find ways to continue real time learning and application. Learning things in the classroom at night, and then applying what I learned at work the next day became a way to quickly identify the relevance of a particular class or material. Studying and discussing things that will move the dial in the policy world guided this project and reflects my experience learning valuable information at UNLV. I want to thank the faculty I worked with for their dedication to providing relevant and practical information. I am grateful for the balance and value my association with UNLV both personally and professionally.

To my committee members- I will forever be grateful for your patience and commitment to accommodating and encouraging my dreams. To the late Dr. Robert Lang, thank you for being a giant who understood how to motivate and move with big ideas and reasoned argument.

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Dr Farmer, your assistance and advice as my advisor helped position me to finish this project and achieve my goal. I want to thank you for joining and helping with this project following Rob's death. You helped me focus on the why, and re-centered my efforts around my goal of improving policy and informing policymakers. Your patience and guidance helped ensure this project continued toward completion through the committee changes in the middle of a global pandemic.

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social science has both inspired and driven me to sharpen my pencil and identify the science behind the issue. You have treated me as a colleague from day one, and have challenged me to think deeper and broader.

DEDICATION

I dedicate this project to my loving wife Debbie Juden- not just because I prescribe to the maximum "happy wife, happy life" but because her quiet encouragement and support was what made this dream possible. Her thirst for knowledge and desire to learn inspires me, her Christlike example of my Savior humbles me, and her commitment to teaching others, especially our five children- Chace, Luke, Tommy, Emma and Grant, motivates me. I would also like to dedicate this project to my wonderful parents, Terry and LaDonna Juden, who showed me the value of hard work and demonstrated a dedication to those they love which I can only hope to emulate. Finally, I would like to dedicate this to North Las Vegas Mayor John Lee who made my goals his goals, and encouraged and motivated me to spend my weekends and evenings finishing this project. I share this PhD with him and hope he considers it an honorary doctorate he rightly deserves for his steadfast encouragement and cheerleading of this endeavor and his tireless efforts to save the City of North Las Vegas from state financial receivership.

PREFACE

In 2011, reeling from the devastating financial impact of the Great Recession, state officials in Nevada commissioned Brookings Mountain West and SRI International to evaluate the state's economic development activities. Regarding the economy, policymakers were beginning to believe that the "current slump has not been just a temporary reversal but a challenge to the state's traditional growth model—one that has revealed an economy over-dependent on consumption sectors, prone to booms and busts, and too little invested in innovation and economic diversification (Muro et al., 2011, p. 3). This realization began changing policymaker's dialogue and lead to the ultimate transformation of policy and makeup of state institutions engaged in economic development.

In short, state policymakers began orienting the state toward diversifying its gaming, tourism, and hospitality dependent economy. This assiduous effort to not repeat the lessons from the Great Recession compelled Nevada policymakers to contract Brookings Mountain West and the SRI International to begin the undertaking with a data driven effort to diversify the state's economy. The recognition of Nevada's vulnerability was coupled with a newly adopted state economic development plan to diversify the state's economy. Within this policy vacuum, best practices were adopted around investing in people, leveraging core economic and natural strengths, and building compatible and complimentary industries to lower the cost of diversification. However, as is often the case, once these deliberate and purposeful actions were operationalized and deployed to attract economic development opportunities, the policy outcomes deviated from the predetermined plan.

German field marshal Hermuth von Moltke, aka Moltke the Elder, famously proclaimed, “No plan of operations extends with certainty beyond the first encounter with the enemy’s main strength.” Or as often quoted more succinctly, “no plan survives first contact with the enemy.” To some it appears that Nevada’s nascent efforts to operationalize its new plan did not survive first contact with an economic development opportunity, and their first real foray into the economic development space resulted in abandoning their meticulous plan for the perceived desires of the new business opportunity. To others, Nevada’s efforts to diversify the state’s economy were rewarded by attracting Tesla- one of the biggest economic development opportunities in the Nation. They found strength in the state’s nimble ability to alter its new economic development plan to attract new enterprise provides a new model for successful economic development.

Where Nevada relied on company-based incentives to attract Tesla, Virginia used people-based incentives to attract Amazon. Virginia’s creative class environment provides good comparative insight into state investment approaches in economic develop. Virginia provides both empirical comparative value to the case study of Nevada, as well as practical considerations for newcomers creating economic development policy schemes on how steady commitment to a data driven plan can ensure that the ‘tail does not wag the dog.’ This project seeks to inform policymakers caught up in trying to attract new economic development opportunities to prevent them from being easily lured away from their data driven plan. While the dynamics of real-life economic development opportunities can, and should, inform policymakers with new information that can alter previous plans, Virginia demonstrates how long-term success can come by remaining committed to high level priorities and simply, patiently, and painstakingly following their plan to develop and support a creative class. In many ways, policymakers in Virginia chose the economic development opportunity (instead of the other way around); by consistently following state plans to invest in their people from higher education to quality transportation, Virginia was able to leverage these investments to attract companies that valued the state's investments.

While Nevada has not made people-based investments to the same degree as Virginia, there are many other drivers that attract new business opportunities to its desert. Nevada's low tax, low regulation environment provides a solid ecosystem for new businesses to thrive, and the recent addition of state company-based economic incentives provides many tools for policymakers to attract new business; however, these advantages are also enticing to sophisticated, multinational firms with a history of thriving by exploiting low regulation, low tax, and anti-labor environments.

The long-term 'stickiness" of a company's residency taking advantage of Nevada's incentives that expire in ten to twenty years could be problematic when the tax incentives sunset in the future. As with any rent seeking scheme, once the free rents dry up the tenants tend to rent seek elsewhere. This business migration could be even more disruptive and frequent in a post COVID-19 world. The hyper-connected global markets already decoupling the concept of 'physical place' are combining with the emerging technology facilitating a new construct of the world's business environment resulting in a technological transformation of the concept and realities of workplace. Policymakers must be even more diligent in constructing incentives with benefits that outlive the timeframe that a company is abated, because it is increasingly more likely that after the company-based incentives dry up, the company will reenter the relocation market and search the horizon for new incentives.

Although not always as politically expedient as company-based investments, people-based investments are more durable and have a positive compounding effect on the underlying community. For elected officials, the fruits from people-based investments take too long to ripen, and are often not ready for immediate and impactful electoral gain or credit seeking opportunities. However, company-based investments quickly attract enterprise for instantaneous political gain while at the same time are extremely politically appealing because negative consequences are often delayed and hidden for others to deal with long after decision makers have climbed to new political heights. Out of necessity, Nevada's policymakers have been extremely successful at attracting new enterprise with company-based economic incentives and now have the opportunity to engage in using more durable people-based economic incentives.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1: INTRODUCTION

Statement of the Problem

On May 9, 2020 at 12:44PM (PST) Elon Musk shocked the world by tweeting that Tesla was suddenly moving its headquarters from California to Texas (Heller, 2021). On Twitter, the social media platform that restricts communications to less than 280 characters, the world's most valuable auto manufacturer (Stevens, 2020) and the fastest growing company on the planet (DeVore, 2020) announced their transition from California to Texas. This simple text-initiated events capable of fundamentally changing the landscape within the two largest economies in the U.S. and 5th and 9th largest economies in the world, respectively (Perry, 2020).

Today's technological based dynamic global market already creates unprecedented flexibility for businesses and supply chains to relocate, and adding government incentives could dramatically increase corporate migration even more. Yesterday's "company town" of the industrial or Fordist days can be more quickly abandoned by today's multinational corporations chasing balance sheet enhancements through direct government subsidies, i.e., corporate welfare. The process, frequently repeated, begins with the company announcing a desire to expand by either growing in place or relocating to a new site. This then kicks off a highly competitive site selection competition among different states bidding for the new business. Competition drives up the cost of government incentive packages created by policymakers and allows businesses to cherry pick states with the most lucrative economic development incentives to relocate or expand their operations. Although this "smokestack chasing" model is nothing new, the increasingly interconnected global economy combined with technological advancements create an environment where the practice will likely become more frequent and persistent. Policymakers, today more than ever, need to be prepared to make good policy decisions when using economic development tools and incentives to support and grow their local economies.

The post pandemic world has further altered the traditional concept of the physical location of a business.[1] The 2020 COVID-19 pandemic began with a near shutdown of the global economy as workers were categorized as essential or nonessential, businesses were closed, corporate headquarters and government institutions were shuttered, and droves of workers were commissioned to "work from home" or forced out of the workforce.[2] This created unprecedented rates of unemployment around the world (Pantelimon et al., 2021). New technologies also challenged and disrupted the traditional norms of close physical proximity and redefined business relationships to virtual relationships decoupling workers and businesses from physical spaces (Khalifa et al., 2021). Businesses operating in this new "zoomnomics" marketplace have an inherent wanton disregard toward physical location resulting in decoupling the business from traditional notions of physical work place and their connectedness to a particular community.[3] Company-based government incentives to induce relocation could unleash a new kind of smokestack chasing, of "smokestack hyper-chasing," where unsuspecting

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[1] As almost everything in the world, this project was impacted by the worldwide pandemic. The pandemic not only interrupted the completion of this project, but more importantly the new realities of the post pandemic world could accelerate the decision dynamics of companies as even more traditional strings attaching companies to specific areas have been severed.
[2] In the U.S., essential workers continued working if they could whereas new government programs provided support for those leaving the workforce- essential workers unable to work because of fear or vulnerability and nonessential workers.
[3] The pandemic mandated work-from-home transitioned workforces entered virtual conference rooms where remote workers could avoid commutes and allow them to work from any location, or beach, in the world.

policymakers looking for long-term economic impacts could only attract temporary, incentive connected partners. Communities built around existing businesses once viewed as stable stakeholders are now as vulnerable as communities competing for them to relocate and expecting a more permanent return on their investments in a less permanent world.

This project utilizes a case study of Nevada's 2014 efforts to attract Tesla to its northern desert through the use of primarily company-based economic development tools. It will identify the role institutions play in economic development policy preferences and examine what types of incentives should be preferred by policymakers. For some comparative insight, the project looks at Virginia's use of people-based economic development tools in 2017 to attract Amazon's HQ2 headquarters to its northeast suburbs in the Washington metropolitan region and explores how New York used company-based incentives to attract Amazon to its less creative class rich state. The incentive package Nevada offered Tesla was the largest in the small state's history and incredibly one of the 15 largest in American history (Lecher, 2016), whereas Amazon was seen as the "biggest economic development prize in a generation" (McCartney, 2018). Representing two of the largest economic development projects in the Nation's history, Amazon and Tesla generated international attention as states across the county competed to attract the company to locate their newest economic development opportunity into their respective state. While both projects represented thousands of jobs and billions of dollars in projected direct and indirect economic impact for the surrounding areas, Nevada and Virginia used very different approaches and incentive packages to attract their respective prize.

The political strategy of government involvement in economic development is here to stay. Post-World War II industrialization efforts have swept the globe, and the postbellum popularity of economic development has persisted since the 1970s, often taking center stage on policy and political agendas of state and local governments (Clarke, 1986; Herzik, 1983; Vaughn et al., 1984). Frequently, cities or states defined by specific boundaries have historically preferred company-based investment within their incorporated territorial boundaries, due to its more tangible and causal direct connection to the economic development project over more elusive people-based investments subject to the migratory whims of its residents. This reality is particularly appealing to credit seeking elected officials who strongly favor company-based incentives, due to the direct causal connection between the immediate government give and the announcement of the economic development opportunity with its promised jobs.

Government policies toward company-based economic development tools have evolved over time from tax abatements, investment credits, low-interest loans, land write-downs, and labor-training grants (Cobb, 1982; Turner, 2003, p. 272), to the more entrepreneurial approach used in the 1980s of investing in capital funds, research and development funds, business incubator and business startup programs, export promotion, and technology transfers (Eisinger, 1988; Turner, 2003, p 272). Despite these changing approaches, various forms of company-based investment strategies have persisted as a central component of state and local economic development policy (Grant et al., 1995; Leicht & Jenkins, 1994). Nationally, these company-based approaches have been strongly favored since they were successfully used regionally in large public works projects across the country as government responded to the Great Depression (Selznick, 1949; Spencer, 2002, p. 13). Locally elected officials making decisions on economic development will likely favor the perceived security of company-based investments, especially during times when policy-makers feel pressure to quickly create jobs (Eisinger, 1995), as was clearly the case for Nevada following the Great Recession of 2008.

States should consider the highest return on investment for the state as a whole when employing company-based economic investment. In the case of Tesla, when considering the return on investment, many argue that locating Tesla in Northern Nevada ignored a more scalable and natural alignment with the workforce and resources in Southern Nevada.[4] The initial project's scalability, as well as the scalability of future expansion and growth, must be considered by the state when making a billion-dollar investment. Southern Nevada provides a more stable and scalable opportunity for large economic development opportunities from housing, labor, support services, social services, entertainment, higher education, transportation networks, etc. The rush to create new policies based on the urgent demands of Tesla is contrary to the U.S. system and its states which were governmental systems explicitly designed "to be inefficient in translating demands into policies" (Baumgartner et al., 2009, p. 604).

Purpose of the Study

The purpose of this project is to provide understanding about using government incentives to attract economic development. Economic diversification, creating better jobs, decreasing unemployment, improving economic conditions, etc., are constant and persistent objectives for political and policymaking actors across the world. Increasingly, governments are engaging in competitive bidding wars to use government economic

[4] As the author, who was engaged in recruiting Tesla to Nevada, it is very important that this project be strictly factual and data driven.

incentives to attract new businesses to their area (Bartik, 2018). This study seeks to highlight how government investments in their people today creates a climate to attract future businesses and reduces the dollars of direct incentives they will have to provide in future competitive bidding wars.

The case study of Nevada's recent experience with economic development helps explain governments policy preferences for a company-based incentive structure. Virginia's experience with Amazon provides a comparative analysis of how historic investments in people can offset the dollars needed for direct incentives to a business to attract them; thereby, offering a contrasting model for guiding researchers and informing policymakers of alternative incentive structures and outcomes. The historical examples of the pros and cons of people-based vs company-based investments are clearly seen throughout the auto industry. However, policymakers continue to repeat mistakes from the past. The failures of Brazil in the 1950s did not prevent Tennessee from repeating similar mistakes three decades later, and incredibly, the lessons learned by officials in Tennessee did not prevent them from repeating the same mistakes again a decade later and then again for a third time in 2020.

Unfortunately, history continues to repeat itself as lessons from the past are not transferred to new elected officials destined to repeat the same mistakes. The time separating the success of securing a promising economic development opportunity and the consequences of the decision creates one of the biggest issues. In other words, the individuals holding the ceremonial shovels and oversized scissors are often long gone by the time the idle factories, mothballs, and pink slips arrive. When a quick win is the central focus, history becomes irrelevant, because those seeking immediate electoral gain will be long gone by the time the consequences arrive. These dynamics push a policy preference toward company-based direct economic incentives, despite their abysmal track record of creating true economic gain for rate payers (Bartik, 2018).

Often, a combination of people- and company-based government incentives are necessary to win a bidding war between competing states. The question becomes the proportion of people to place base incentives. It follows that people-based investments are made in the decades and years prior to the arrival of the new business opportunity, and states with a history of making long term investments in their people attract future economic opportunities as companies relocate or expand based on the value the company places on these investments. However, even robust long-term investments in people can result in deficiencies in specific unpredictable areas which may require states to overcome with immediate company-based investment or tax incentives to overcome the deficiency in order to attract the new economic opportunity. For example, investments in the latest technology infrastructure may be needed to attract a business. This study analyzes how Nevada paid a hefty price to overcome its historic lack of people-based investments to attract Tesla, highlighting a central contention of this project being that a balanced approach to long-term people-based investments and real time company-based investment could lead to better policy outcomes.

Government Incentive Structures- The Devil is in the Definition

One central problem for this project is that researchers have left the distinction between people- and company-based, also referred to as 'place-based' in early literature, incentives allusive and undefined (Spencer, 2002, p. 5). The absence of clear definitions for the two distinct incentive structures can create confusion within the policy arena and frustrate a targeted approach to creating and tracking precise and reliable incentive packages created to entice economic development opportunities. For purposes of this project, people-based economic incentive policies target people or households (Spencer, 2002, p. 31); whereas, company-based economic incentive policies- often in the form of direct financial incentives (Pew Charitable Trusts, 2021, p. 1) - target specific needs of a business.[5] In early economic development literature, company-based economic incentives are often referred to loosely as “place-based’ incentives making it difficult to distinguish whether investments made in a place are for residents or for the company. Recent research has focused on the location as a tool for economic development, emphasizing the importance of the characteristics of a city, region or community in attracting economic development (Florida, 2019a; Glaeser, 2012; Kelly, 1998). Although there is much disagreement about what ultimately attracts talented labor, recent literature encourages governments to invest in the “place,” or the environment where people live and companies locate. For the most part, government policies designed to stimulate economic diversification by attracting new enterprise generally fall into people- or company-based policy preferences, or a combination of the two.[6]

Company-based Incentives

The case study of Nevada highlights several examples of company-based incentive approaches to economic development. To attract economic development opportunities and the jobs they proport to create, policymakers often have to make

[5] People-based incentives are a supply-side approach of labor markets where enhancements in the living environment attract busines, and company-based incentives are largely a supply-side approach of geographically-targeted or direct enterprise-targeted investments to attract economic development.
[6] Think of these as investing in the immediate needs of the business to facilitate its relocation or expansion (place) vs long and near term investing in citizens to build a better business climate to attract businesses (people).

specific company-based investments. These can be direct subsidies to businesses including such things as state and local tax breaks, holidays, or deferment; free land, equipment or buildings; new infrastructure in the form of utilities, roads, bridges, etc.; and any other government created incentive directly to the company. Ultimately, the long-term success company-based investments play in recruiting and attracting new business to a region depends on several factors, and ultimate results have not always ended in long-term success for the community when compared to the promises the incentives were based on.

People-based Incentives

People before companies, or more specifically people-based investment vs company-based investment, will be at the center of this project. For many scholars, governments should first invest in the people then invest in the place in the final push to attract business. People-based investment focuses on basic welfare services such as education, affordable housing, health, safety from crime, clean water, diversity, and sanitation. People-based policies "ensure that peoples' life changes do not depend on their place of birth and that they are equipped to take advantage of economic opportunities wherever they arise" (Turok, 2012, p. 5).

Virginia's historic use of people-based incentives provides a contrasting view of the Nevada case study. Decades of robust local and state people-based investments central to Virginia's approach to economic development provides a great comparison to Nevada's nascent state engagement in the economic development arena in an effort to diversify its mining, hospitality and tourism reliant economy. In Nevada, the economic crisis induced the rapid creation of an entirely new set of policymaking and policy implementing institutions, offering researchers unique insight into outcomes resulting when crisis provides decision makers a break from the past which allows them to implement more robust policy and programs to alleviate the crisis. In Virginia we see institutions display a more deliberate and robust long-term approach to economic development emphasizing a commitment to government support for people-based economic incentives.

The project will identify the interplay between how a deficiency of historic people-based investments impact the need for a state to compensate for the deficiency by using company-based incentives to attract a business. The project will discuss how a more deliberative and consistent practice of people-based investments can ultimately reduce the number of company-based investments needed to win the high-pressure bidding war as competing states rush to win the contest to attract the latest economic development opportunity. Both people-and company-based incentives and investments are important tools economic development professionals need in their toolbox to successfully compete in the highly competitive arena of economic development; however, Virginia demonstrates that states with institutions aligned around a long-term strategy of investing in its residents are creating better lives for their residents while also creating an attractive creative class environment for new enterprise.

People before Companies

While most law school professors are professionally dressed in their faculty portraits, this researcher's contracts professor at the University of Iowa College of Law wore a bright red shirt that proudly touted in large white lettering: "People Before Profit." As an unapologetic Marxist, this professor lived his beliefs by riding a bike to school every day, wearing the same tattered and patched up sweatshirt, and donating most of his salary to various student groups and causes in the law school. While uncertain whether his shirt was an acknowledgement of the electoral alliance in Ireland bearing the same name, or a manifest expression of his personal views, its simplicity and impact remains with me to this day. For purposes of this project, his definitive statement will be revised to "People Before Companies" in this effort to analyze and compare the utilization of people- and company-based economic development investments in Nevada and Virginia.

Research Questions

Using existing research on drivers of economic development and public institutional formation, this project seeks to determine if the predicted outcomes of these important research contributions to understanding economic development align with the applied realities experienced in the case study of Nevada using a comparative analysis from Virginia. If not, the project seeks to identify new insights to inform future policymakers engaged in using public resources to successfully attract new economic development opportunities while building and investing in their communities.

Focusing on Nevada in particular and through comparison with Virginia, this study asks the following questions:

> **RQ_1**: What role does the historical evolution of Nevada's public institutions have in the policy preferences for people- or company-based investments?
>
> **RQ_2**: Do companies prefer company-based more than people-based economic incentives, and which did Tesla prefer?
>
> **RQ_3** Why does Nevada pursue company-based incentives despite the empirical research suggesting their ineffectiveness?

RQ4: Do these observations recommend a particular investment strategy for policymakers seeking to attract new enterprise?

Significance of the Study

This project seeks to inform policymakers engaged in economic development on best practices when using the public's money to attract new businesses. At the most basic level, policymakers view company-based investments as a cycle of using revenues collected from existing businesses to attract new enterprise, thereby growing the existing tax base and decreasing the tax burden on everyone. Both people- and company-based investments can be politically expedient and achieve shared priorities cutting across most ideological divides. Scarcity of resources require governments to prioritize which social programs and proposals to implement, and the political leanings and party affiliation of those in power influence which social programs and proposals are favored. In many states, as the electorate evolves, the party in power changes and funding is redirected to new priorities and proposals. Highly partisan states, where the levers of government are bright red or bright blue, are not as susceptible to this cycle of changing priorities and are able to develop more robust and durable social programs.

Virginia and Nevada are two states where historically balanced power shifts have resulted in more volatile state investment in social programs. However, regardless of political affiliation, job creation- with some nuisance- is a populist position resonating with voters across the spectrum. While there may be extreme positions within each party, as highlighted by New York Congresswoman Alexandria Ocasio-Cortez's opposition to Amazon locating the second part of H2Q in her Queens district, economic diversification is something that often unites and brings both parties together as evidence by bipartisan efforts in Virginia and Nevada.[7] Despite this reality, many liberal social programs favored by democrats are not seen by republicans as current investment in future economic development opportunities.

Nevada- a Laboratory of Study

Following the Great Recession of 2009, the economic conditions in Nevada forced government to study and act, creating a scenario where new policies could be tried and tested and outcomes measured- a laboratory of study if you will. Nevada was one of the states most adversely impacted by the Great Recession, due in part to its rapid population growth, state budget's overreliance on Southern Nevada's historic and robust hospitality, tourism and gaming sector, and national leading high unemployment rate. These factors decimated Nevada's economy, compelling the state to rapidly and aggressively seek ways to diversify its economy. Nevada, reacting to a sharp spasm of economic change, where political processes generally characterized by stability and incrementalism produce large-scale departures from the past (Baumgartner & Jones, 1993) as the state rapidly adopted new policies to deal with an immediate crisis, and then quickly pivoted as economic development opportunities presented themselves.

The new and heightened concern for diversification and immediate economic challenges influenced policymakers as their efforts to craft an incentive package to bring Tesla to Nevada collided with historical and deep-rooted geographical tensions and policymaking institutions which had been shaped gradually over time as seen through

[7] The Nevada legislature unanimously passed the incentive packages with the 11 Democratic Senators and 10 Republican Senators in the senate joining the 27 Democratic and 15 Republican members of the Assembly to vote in favor of the bill. (S.B. 1, 2014 Nevada Legislature). In Virginia, after only 9 min of debate the Virginia House, by an overwhelming bipartisan vote of 83 to 16 in favor of the bill which has passed the senate by a vote of 35 to 5 (McCartney, 2019).

historical institutionalism (Thelen, 1999). As one of the least economically diverse states in the Nation, Nevada provides a blank canvas to analyze economic diversification where unique policy voids provide opportunity for input and measurement. A September 2010 study conducted by Moody's Analytics for the Nevada Vision Stakeholder Group "found that Nevada's economy is significantly less diverse than the national average and less diverse than all other states except Alaska and the District of Columbia" (Muro, et al., 2011, p. 19). Recognizing Nevada's overreliance on its consumption-oriented sectors, policymakers sought to rein in the historic volatile economy created by this overreliance through economic diversification (Muro, et al., 2011, p. 19).

Historically, Nevada was created by two main forces- Californians seeking to protect their mining interests in the mineral rich territorial land and President Lincoln looking to secure additional slave free territory to further shift the electoral balance of power away from the south. From this early foundation, Nevada evolved as a state with mining as the principal industry in the north and gaming as the principal enterprise in the south, both reliant on the geographic boundaries of the state where mines were located and gaming permitted, despite being largely illegal in the rest of the Nation. Experience with these distinct geographically located industries impacted the evolution of government institutions within Nevada and provided the framework for future conversations on economic development.

Although this study looks at the states of Nevada and Virginia, the metropolitan regions of Washington, D.C., Las Vegas, and Reno are the primary areas of comparison. Much of the existing research on company-based economic investments focuses on the state or federal level. State and national governments "play a central role in company-based development efforts helping to administer major federal economic and community development programs, designing their own initiatives, and writing laws that dictate how local government programs may operate" (Pew Charitable Trusts, 2021, p. 1). However, recent scholarship is recognizing the power of metropolitan regions that cut across state boundaries often incorporating multiple states (Katz & Bradley, 2013; Katz & Nowak, 2017) and recognizing the politically unique interactions occurring between states and cities within metropolitan regions (Atherton & Lehman, 2011; Burns & Gamm, 1997; Burns et al., 2009; Saladino, 2020).

Using Reno, Las Vegas and Washington, D.C., as units of analysis, this study follows the definition of metropolitan regions as set out by Jennifer Brady, as "areas explicitly recognizes the connections between cities and their surroundings- it's built into the definition. A metro consists of one or more principal cities, the surrounding county, and other counties linked by substantial commuting flows" (2009). As one of the fastest growing states in the Union, Nevada, aided by explosive growth in Las Vegas, not only offers a unique perspective, but can serve as a blank canvas where good policy implemented today can have significant long-term ramifications on the state's future. Las Vegas is located within the Southwest metropolitan cluster which is predicted to represent the nation's largest amount of growth among all metropolitan clusters, expecting to swell to "nearly 13 million new residents expected between 2010 and 2040" (Nelson & Lang, 2011, p. 143). As a laboratory, policymakers have the opportunity to strike the appropriate balance of company- and people-based investments to attract economic development by investing in their citizens and building a stronger community.

Combining Nevada's need to dramatically realign its tax base through economic diversification and its predicted explosion in future growth offers opportunity that can be channeled, redirected, and reshaped through purposeful public policy. Nevada provides a unique example of a state that needs to change, and has incredible tools at the disposal of policymakers to effect change.

Theoretical Framework

Rent Seeking

Derived from the field of economics, rent-seeking "includes all of the various ways by which individuals or groups lobby government for taxing, spending and regulatory policies that confer financial benefits or other special advantages upon them at the expense of the taxpayers or of consumers or of other groups or individuals with which the beneficiaries may be in economic competition" (Dustin, 1999, p. 151). While the private sector seeks these rents, governments willingly signal and engage in the rent seeking behavior through their approach to economic development.

The case study of Nevada provides examples of rent-seeking behavior and illustrates a unique example of a state and its institutions that were designed by rent-seekers for rent-seeking. Nevada's very formation by individuals and groups for the purpose of protect their mining interests can be seen as the beginning of the state's long rent-seeking relationships with individuals and groups seeking special government advantages to promote their interests. Drawing from this rich historical connection and familiarity with rent-seeking, the state's institutions evolved to accommodate and promote Nevada's economic development approach of favoring company-based investments to further the history of encouraging rent-seeking by corporate entities.

Historical Institutionalism

Winston Churchill said, “the farther backward you can look; the farther forward you are likely to see.” History matters, and understanding the context of the past helps understand where we are, and more importantly where we are headed. Too often policy decisions are understood through the realities of today's world; thereby, ignoring the purpose behind legislative intent and its impact on the future. At its core, historical institutionalism is an approach of study that attempts to illuminate how political and policy struggles are mediated by the institutional settings in which the endogenous decisions take place (Thelen, 1999).

As an approach to studying policy preferences in Nevada, historical institutionalism is a relatively recent social science approach emphasizing how timing, sequences, and path dependence affect the creation and evolution of institutions as well as steer political and social change within an institution (Voeten. E, 2019, p. 149). Historical institutionalism can be used as a model to better understand the impact of the institutional setting that structures make on forming public policy (Steinmo et al., 1992, p. 2). For this project, the historical context of how institutions in Nevada and Virginia evolved play a determining factor in the bottom-up, moving from bureaucrats up to elected officials, to gradual policy tendencies created within the path-dependent institutions.

As discussed more below, Nevada was created - for the most part- by profit seeking enterprise who looked to create a government to accommodate, protect and promote their business interests. This reality shaped the state’s constitution, every entity created by the constitution and all subsequent government entities created by the constitutionally created entities. This path was reinforced by the 28th (2014) Special

Session. This special session became a contemporary model for subsequent special sessions centered on economic development opportunities. Compared to Virginia, Nevada and its recent population booms and financial busts have focused the state on new questions regarding economic diversification and development to transition the state away from its hyper reliance on gaming and mining. Despite the economic diversification Tesla brought to Nevada, the state did not transition away from its rent-seeking history when creating the incentive package to lure Tesla.

Virginia has a rich history of making people-based investments in a wide variety of areas. These investments successfully position Virginia to attract enterprise including Amazon H2Q by aligning with corporate cultures creating workforce readiness and high livability standards for employees of the new enterprise. Early investments in people decrease the need for Virginia to offer large incentive packages to overcome decades of inadequate investments in people. However, New York’s proposal to Amazon demonstrates the deferred costs of failing to invest in people.

Clearly, a state's approach to economic development and the specific economic development abatements offered have evolved differently within each state depending on the institutional structures of each state. The comparative analysis provided in this project could produce significant outcomes when studying the historical formation of institutions and Nevada’s experience with rapid institutional realignment occurring in response to the economic crisis in Nevada- where new policies and institutions were rapidly created, as compared to Virginia’s more incremental approach.

Path Dependency

Path dependency is a central element embedded within the historical institutionalism model. That is to say, common history tends to shape institutions and future policy decisions in a similar way with predictable outcomes where the history sets in motion a particular direction that is difficult to deviate from. History is made up of unchanging past events which are fixed in time and impact different institutions in the same way resulting in the shared history tending to shape similar policy outcomes across differently situated institutions.

Creative Class Theory

Since Adam Smith, economists and social scientists have framed economic development around the three key factors of production- land, labor, and capital. The presence of these three factors served as the foundation for the industrial or Fordist models of economic organization that guided early scholars in economic development thought (Florida, 1991; Florida, 2014, p. 196; Florida, 1995). Florida sought to tackle this grand topic of the shift from the older industrial models of economic thought by framing around the concept of the geography of innovation which transitions from being "exclusively fixated on firms and industries to one that also paid due attention to people and places."[8]

Influenced by Robert Lucas (1994), Florida saw place as significant to innovation in that place represents "clusters of talented and creative people that concentrate in cities which ultimately power economic growth" (Florida, 2014, p. 197). Florida's early research

[8] When considering "place," Florida is considering the geographical location as a specific place constructed by people, not to be confused with the use of "place- based" incentives used in earlier research- for Florida 'place' is people.

into the individual contributions of intelligence looked at how the Japanese production system tapped into the mental labor of factory workers as evidence of an advancement beyond the traditional Fordism of industry (Florida & Kenney, 1990, 1991). In developing the creative class theory, Florida focused on three specific factors that drove economic development which he labeled the 3Ts including technology, talent (workforce), and tolerance (community's openness and acceptance of diversity). He later added territorial assets to the list of factors. For the creative class theory, these 3Ts are critical to regional economic growth and are central to private sector decisions of economic development where firms are looking to relocate or expand focus on the presence of the factors.

Summary of Subsequent Chapters

The current chapter provides the purpose of this research project presented in the research questions and outlines the goals and aspirations of the project. Chapter two reviews existing literature explaining policymaker's approach to using company- and people-based economic development incentive tools. Chapter three provides the theoretical framework of this project by outlining an overview of the historical institutionalism approach to understanding why rent seeking behaviors persist in Nevada and how the creative class theory supports people-based incentives. Chapter four describes how the mixed methods design of this project utilizes quantitative methods to support the qualitative case study and semi-structured interviews conducted for this project. Chapter five is a case study of Nevada analyzing how the state's history shapes the decisions being made today and how the creative class theory provides new insight for policymakers operating within institutions on a path-dependent trajectory influenced by the past. Chapter six provides a comparative analysis using Virginia's contemporary approach to economic development and a detailed content analysis comparing how Nevada and Virginia approached their respective economic development opportunities. Chapter seven contains the analysis of the findings from the quantitative semi-structured interviews. Finally, the project concludes with a summary of the study and recommendations for policymakers operating within the economic development space.

CHAPTER 2: REVIEW OF RELATED LITERATURE

Introduction

This chapter explores the existing literature explaining policymakers' decisions to use people- or company-based incentive tools when attracting economic development projects to their state or region. This chapter reviews the literature that guided this project, specifically, the literature: (1) related to historical institutionalism, with a focus on the gap in literature regarding institutions themselves structuring behavior; (2) related to how the rational choice modeling of credit seeking favors company-based incentive package; (3) related to the creative class, with a focus on the importance of the creative class in attracting economic development; and, (4) related to rent seeking behavior, with a focus on the changes in corporate attitudes and priorities in a post COVID landscape and how it could drive policy.

Not surprising, policy decisions to use people- or company-based incentives are often highly political. The scarcity of jobs- or desire to attract better jobs- produced as a result of the volatile national and global economy, frequently puts politicians and policymakers at the forefront of advancing pro-job creation policies. The chapter explores relevant scholarship looking at the shift from older industrial or Fordist models of economic development, primarily focused on company-based incentives, to newer models of economic systems which account for the value of people-based economic incentives. The most apparent gap in the literature is the evolving nature and lack of specific definitions of company (place)- based incentives, while there is an abundance of research on the problems with company-based incentives the literature does not properly distinguish between different levels of company-based incentives being used by policymakers in today's hyper competitive economic development environment.

The review of the literature also highlights a gab connecting the effect of the historical evolution of existing political institutions on the decision-making process of policymakers facing intense pressure to not lose the latest economic development opportunity to other states competing for the business. In particular this project seeks to highlight how government's consistent people-based investments, influenced by the institutions they operate in and around, will lead to future economic development opportunities and decrease the price states will have to pay in company-based incentives in order to overcome the state's past neglect of investing in its people.

Historical Institutionalism

Institutions, and theorizing about the importance of institutions have been present since scholars first started thinking and studying social relations and politics. Plato, Aristotle, Locke, Hobbes, Madison, and many others understood the importance of institutions for structuring behavior (Steinmo, 2008, p. 151). In *Politics* (1905) Aristotle's inquiry regarding how institutions impact normative values is merely a continuation of Plato's earlier study in *The Republic* where Socrates' famous student compared the different forms of government to better understand how institutions shape political behavior (1943). Similarly, the 16th and 17th Century philosophers Locke, Hobbes, and Martin Luther were interested in the influence of institutions on pollical and social life. Their thoughts were later studied and pondered by the American founders who had similar questions regarding the influence of institutions on political actors as they wrote the US Constitution (Steinmo, 2008, p. 151).

These classical questions and lines of inquiry regarding the importance of institutions had significant impact on the modern academic discipline of social science as it emerged in the late nineteenth and early twentieth century (Steinmo, 2008, p. 152). The analysis of institutions and their impact became less frequent in the analysis as social science evolved and quantitative analysis became more popular as constituent variables were measured, examined, and analyzed independently (Steinmo, 2008, p. 153).

> In its attempt to be more scientific (particularly in America, with the lure of funding from institutions such as the National Science Foundation), the cutting edge of social science moved away from historical analysis and 'thick description'. First, there was significant pressure to be more rigorous and quantitative. In the eyes of many, too much of the previous work had simply been historical and descriptive. History could be interesting, but if it did not lend itself to easily testable and falsifiable propositions, it was not science. Social science, the 'behaviouralist' thought, needed to move away from the particulars and treat cases as sets of values on variables. It was also important that social science restrict itself to factors that could be measured, counted and then compared and analyzed. This meant that we should study behaviours that are measurable and not institutions – which, almost by definition, are unique. Certainly, the behaviouralist agreed, social science was an infant science. The models were crude, the methods rough and the data pathetically incomplete; but all this was once true of physics and chemistry as well (Steinmo, 2008, p. 154).

History matters, and more particular, the specific and unique historical context surrounding the creation and the evolution of government institutions really matters. It is important for policymakers to understand how the history of the institutions they operate within can influence the decisions they are making in the organizations they operate in. At its core, historical institutionalism attempts to illuminate how political and policy struggles are mediated by the institutional settings in which they take place (Thelen, 1999). Historical institutionalism can be used as an approach to better understand the impact of the institutional setting that structures make on forming public policy (Steinmo et al., 1992, p. 2). This project leans into historical institutionalism to explain the endogenous, gradual, and transformative institutional change occurring within Nevada as policymakers formed policy to attract Tesla to Northern Nevada.

For institutionalist scholars, institutions are most often defined as rules; which, has been expanded to include formal rules and organizations (Streeck & Thelen, 2009) as well as informal rule and norms (Marcussen, 2000; Hall, 1989). This project will discuss institutions as formal political organizations such as the Nevada State Legislature; the Nevada Governor's Office; the Governor's Office of Economic Development (North, 1990); formal rules such as the Nevada Revised Statute and the Nevada State Constitutions; and informal rules and norms when discussing how geographical intricacies and tendencies shape and limit policymaking decisions (Berman, 2012).

Policymakers need to recognize how the historical formation of the institutional organizations they operate within are influencing and invisibly guiding their policy formation. Policy preferences are shaped by both the institutional organizations themselves as well as the formal institutions that created the organizational institutions. The project postulates that by informing policymakers about the "impediments to the success of governments" they are bound up in the history of their institutions and impacting policy choices (Peters et al., 2005, p. 1276).

"Central Task" of Historical Institutionalism- a New Focus

While historical institutionalism provides a useful approach to the study of public policymaking within a gradual and stable institution (Steinmo et al., 1992), the approach is often criticized for its inability to explain political and policy change (Peters et al., 2005, p. 1278). The literature supports, and there is little disagreement among scholars today, the underlying emphasis historical institutionalism places on the importance of institutions

(Peters et al., 2005, p. 1297). Existing research in historical institutionalism looking at "gradual institutional change (has) focused more on how social and political interactions transform institutions than on how institutions themselves structure those interactions" (Capoccia, 2016, p. 1096). Thelen (1999), Steinmo (2008), and others contributed to the resurgence in returning to the importance of institutions themselves as an approach to understanding empirical questions regarding endogenous change within institutions and provided theoretical vocabulary and structure for analysis.

The early work focused on questions of how political and social behavior was structured by institutions and policy. Later work has shifted to a focus on an analysis of institutional change (Capoccia, 2016, p. 1096). While this shift is valuable for this project, it still does not focus on how institutions themselves structure those interactions, especially the interactions happening within formal government organizations (Capoccia, 2016, p. 1096). Accordingly, scholars are confronting "a central task" to understand the conditions under which institutions and policies structure social behavior (Capoccia, 2016, p. 1096) or become themselves the "object of strategic action" (Hall, 2010, p. 204). This creates a noticeable gap in the literature this project seeks to fill, and the case study of Nevada's creation of incentives to attract Tesla illustrates how the institutions within the state structured those interactions. The nature of Nevada's predominately company-based economic incentives reflects how the institutions in the state structure policy based on the institution's historical evolution. Additionally, the location of Tesla to Northern Nevada provides insight into how the state's institutions- both formal legal institutions and institutions as organizations- are structuring policies. The case study of Nevada used in this project provides some insight into the struggle historical institutionalism faces when explaining exogenous drivers of policy change within stable institutions.

Events happening within a historical context have direct consequences on the institutions (Steinmo, 2008, p. 165). Economic historian Alexander Gerschenkron argued that *when* a country industrializes affects *how* it industrializes, and the more "economic backward" an economy is at the beginning of economic development the more likely certain conditions will occur (1962). In the chapter that follows, this provides a valuable line of analysis for the case study of Nevada and how its policy preferences in economic development are impacted by *when* the state forms a more robust economic development structure and *how* it begins experimenting with economic development incentive tools to attract business. Most importantly, the insight provided by historical institutionalism can be easily missed in large scale quantitative, cross national comparisons that pool data across time and treat the context of time as inconsequential (Steinmo, 2008, p. 164).

Despite the broad applicability of this approach of study, historical institutionalism has not been applied within the context of economic development research and policy formation. While the theory provides some explanatory value for why past decisions were made and why certain policy preferences were followed by economic development policymakers, historical institutionalism can also provide great insight to current policymakers by identifying institutional currents influencing- or likely to influence policy creation and stakeholders' behavior. Informed policymakers, forewarned of implications of historical institutionalism, can navigate toward better policy outcomes by recognizing the historical baggage weighing down policy choices and influencing outcomes.

Path Dependency of Historical Institutionalism

In theoretical terms, path dependency is a central analytic notion in the approach of historical institutionalism (Peters et al., 2005, p. 1275) where many government actions occur between the guardrails of a predetermined path of self-reinforcing processes (Pierson, 2000, p. 251). While knowledge alone may not break the path dependency historical institutionalism presents, informed policymakers can better strategize and chart new policy courses when they have a better understand its presence to help them predict pitfalls and successfully navigating around the influences of history and "solving problems within that reality" (Peters et al., 2005, p. 1276). This project frames the policy decisions of Nevada and Virginia within the explanatory power of historical institutionalism while at the same time seeking to challenge the historical institutionalism 'can't teach an old dog new tricks' aphorism.

Institutions and policies tend to have policy trajectories that are highly path-dependent. There is a significant body of literature on policy studies that emphasizes the persistence of policy and its "path dependency" (Peters, et al., 2005, p. 1275). Within historical institutionalism there is an overarching assumption that policymaking systems are conservative defenders of the status quo that protect existing "patterns of policy" (Peters et al., 2005, p. 1276). For Pierson institutions are made up of self-reinforcing processes, and once a pattern has been established, institutional and policy change can be difficult within a system built to protect policy from endogenous and exogenous changing (2000).

For historical institutionalism, although policymaking is often a stable and path-dependent process, there are "formative processes" which can interrupt the path

(Steinmo, et al., 1992). As actors within the policymaking process, elected officials are often bound within this path-dependent framework and find it difficult to break out of the path-dependency created by the power relations of the institutions the elected official is operating within (Hrelja, et al., 2013). Even elected officials predisposed to challenging path-dependent systems can find it difficult when operating in an institution with an acute history of smokestack chasing and awarding company-based incentives.

Rational Choice and Credit Seeking

Drawing from adversary democracy theory, the rational choice model helps explain how self-interested policymakers, in particular governors, consistently award company-based incentives. The theory of adversary democracy is centered on self-interests where "voters pursue their individual interests by making demands on the political system in proportion to the intensity of their feelings" and "politicians, also pursuing their own interests, adapt policies that buy them votes, thus ensuring accountability" (Mansbridge, 1990, p. 135).

Rational choice assumes that individual behavior is motivated by self-interest, utility maximization, and goal fulfillment (Petracca, 1991, p. 289). From David Mayhew, we get the notion that members of congress are "single-minded seekers of re-election" (1974). This narrow view provides predictive and explanatory power into policy preferences for members of the U.S. Congress. It also provides some insight into decisions made by elected officials in other offices at other levels of government when it was expanded to observations "noting local officials'' preferences for projects that facilitate credit seeking in the short term (Gerber & Gibson, 2009, p. 636). For Mayhew, "credit claiming" is defined as ""acting so as to generate a belief in a relevant political actor (or actors) that one is personally responsible for causing the government, or some unit thereunder, to do something that the actor (or actors) considers desirable" (1974, p 52-3). Credit seeking becomes central to the analysis of this project and provides descriptive insight into the actions of policymakers who support projects that meet the three factors of credit seeking- *visibility*, *short term results,* and *targeted benefits* (Feiock & Clingermayer, 1986; Feiock & Kim, 2001; Feiock et al., 2003; Frant, 1993; Frant, 1996; Lineberry & Fowler, 1967). The scientifically recommended course of action collides and aligns with the self-interests of politicians when it comes to using tax payer money to 'buy jobs' (Feiock et al., 2003, p. 620). The significant political rewards are recognized by elected official who will 'buy jobs' at any cost (Reese & Fasenfest, 1996, p. 200).

For the private sector the allocation of resources is determined by the market, whereas in the public sector politics and the "politicians' desire for reelection" are the "basic institution for allocating resources" (Frant, 1996). The tangible benefits produced by a development policy is secondary to the politicians' ability to claim credit (Feiock & Clingermayer, 1986). It is this credit seeking addiction that become one of the primary factors influencing a policymakers preference when choosing between company-based or people-based investments. Company-based investments immediately connected to a prized economic development opportunity are highly visible, yield short term results, and are targeted benefits- meeting all the factors that produce short term. As discussed in Chapter 6, in the first Tennessee interaction with GM, Governor Alexander had national political ambitions, and rational choice would suggest his interests made the determination to do whatever necessary to bring GM to his state. Rational choice suggests policymakers will choose company-based incentives and its numerous political advantages over the incremental benefits, low visibility and disconnectedness of people-based incentives.

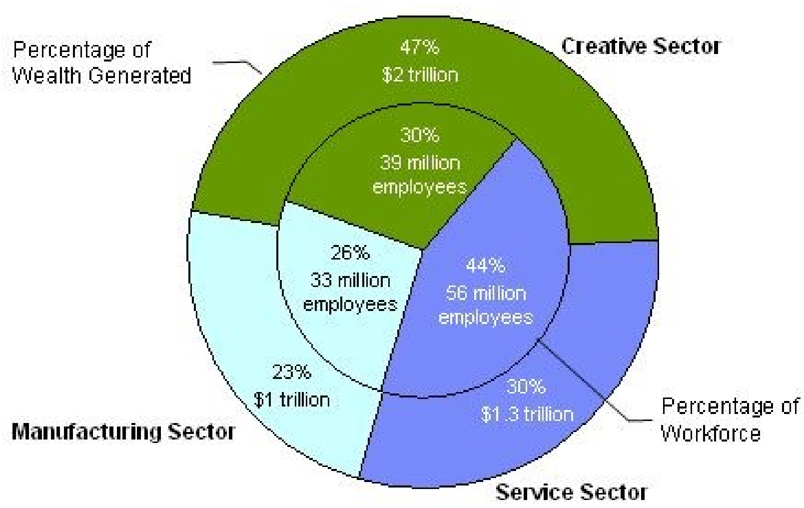
The Creativity Class Theory

Originally published in 2002, *The Rise of the Creative Class* became a national bestselling book which popularized the theory of the creative class by generating widespread conversation and significant debate regarding the theory's use and relevance to economic development (Florida, 2002). The popularization of the creative class theory can provide better support and linkage for policymakers to make people-based investments in the name of economic development. Richard Florida credits *The Rise of the Creative Class* as a "direct outgrowth of my lifelong work on one of the major themes in economic development research- the shift from older industrial or Fordist models of economic organization to newer postindustrial, post-Fordist, and 'flexible' economic systems" (2014, p. 196). While the global best-selling book may have introduced many to the creative class theory for the first time in 2002, Florida had been engaged in researching and building the theory through the 90s. The theory's popularity in the larger public arena and among practitioners in economic development is partially due to his successful marketing (Lang & Danielsen, 2005, p. 204).

Focusing on the growing role of creativity in our society, and more specifically its role in our economy, Florida seeks to explain the future of cities and how certain cities have become a magnet to attracting, growing and strengthening the creative class. Florida's seminal book, *The Rise of the Creative Class,* seeks to explain the connection between place and economy as a connection driven by the power of cities. The book argues for the importance of place, or cities, by chronicling how peoples changing attitudes, relationships, choices, values, personal preferences, and tastes influence where they live and their impact on economic systems. For purposes of this project, it is critical to better understand the creative class: what it is, what makes it tick, what influences it; the economic value of the creative class for a business; and, how building a stronger environment through investing in people can attract the creative class and lead to a stronger economy by attracting more enterprise seeking the creative class.

The creative class is large, growing and according to Florida "taking over the world" (Lutz, 2012). Representing about 150 million people worldwide- 38.3 million Americans and 30 percent of the American workforce (see Figure 2.1)- the creative class is made up of workers whose primary job is to think and create new approaches to problems (Florida & Pedigo, 2017) and nearly half of total wages and salaries.

Figure 2.1: Size of Creative Class Sector (Douglas, 2013)



Source: Douglas, R. (2013). Talent in the (new) service economy: Creative Class occupations? *Coevolving Innovations in Business Organizations and Information Technologies.* Retrieved from https://coevolving.com/blogs/index.php/archive/talent-in-the-new-service-economy-creative-class-occupations/

Since the creative class is big, growing, and influential it is important to explore how policymakers can expand the creative class as a tool to attract future economic development opportunities.

Challenges to the Creative Class Theory

Despite the explanatory power of the theory, some scholars do not agree with Florida's science and attack the theory on multiple fronts. Criticism begins at the theory's core definition where several scholars have issues with Florida's underlying definition of the creative class (Howkins, 2001, p. 68) and the value of its vague and imprecise meaning. The definition's lack of specificity drives much of the criticism as scholars find the broad definition practically meaningless, because "the vast majority of occupational groups in contemporary industrial society involve a certain degree of creativity" (Krätke, 2012) making it difficult to actually identify a distinct creative class.

Edward Glaeser (2012) emerged as one of the fiercest critics of the creative class theory. Glaeser's critique of the theory has resulted in substantive exchanges between Florida and Glaeser resulting in further clarity and precision of the theory by Florida. Florida himself recognizes the value of the debate saying, "I am grateful to my critics. I always say I learn the most from the people who force me to think the hardest about my ideas and assumptions and to clarify what I think and write" (Florida, 2014). Glaeser's strongest attacks of the theory seek to undermine one of the theory's conclusions that locations attract a creative class. Glaeser's criticism was primarily based on the observation that Florida's creative cities were not adding population as fast as many of their Sun Belt peers because people actually love their cars and like to live in sunny, dry climates (Glaeser, 2012). Glaser sought to replace the three Ts of technology, talent, and tolerance with “skills, sun and sprawl” succinctly concluding “There is no variable that predicts urban population growth in the 20th century better than January temperature” (Glaeser, 2009).

For purposes of this project, Florida’s successful efforts at marketing the theory in the larger public arena by tailoring the empirically based ideas to a larger audience could have resulted in trivializing the important scientific concepts (Lang & Danielson, 2005, p. 204). This could have the effect of “encouraging practitioners to misread the policy implications and thereby pursue potentially counterproductive economic development strategies based on Florida’s ideas” (Lang & Danielsen, 2005, p. 204). This project explores the value of the creative class factors presented by Florida and how policymakers should consider the presence of these factors as significant drivers of economic development. This project seeks to inform policymakers that large company-based incentives will be needed to overcome deficiencies in creative class factors- this theme of pay now by investing in your people or pay companies later is present throughout this project.

Evolving Definition of Company-based Incentives

The lack of specific definitions categorizing types of government investments is one of the central problems in the literature. Neglecting to provide clear definitions makes it difficult for researchers to uniformly discuss and understand how government can effectively promote economic development in ways that benefit their communities in the long run. The allusive and undefined definitions regarding types of incentives (Spencer, 2002, p. 5) makes it difficult for researchers to identify the incentives that work and distinguishing them from incentives historically failing to meet promised expectations.

In early research, economic investments made by governments were discussed in terms of investing in ‘people,’ i.e., public-based investments in education, health care, etc. or place-based investments, i.e., direct subsidies to private sector such as stadiums, casinos, convention centers, etc. These high-cost place-based investments were often used to bring specific businesses into the community and often resulted in boondoggles where the direct subsidies failed to meet projected outcomes (Donegan et al., 2021, p. 796; Eisinger, 1988; Hanley & Douglass, 2014; Markusen & Nesse, 2007). Despite much being known in the research about the incentive failures (Donegan et al., 2021, p. 796) the various case studies do not provide consistent distinctions between types of government investments, and the allusive and undefined (Spencer, 2002, p. 5) terms began to evolve further in recent literature.

The imprecise terms have allowed recent scholarship to create further confusion by taking the term “place,” formally defined as company type incentives, and using it to describe traditional people-based investments. Much of today’s research focuses on “place” as the geographic location where people live, and investment in “place” refers to investment in the location for the benefit of people. Governments are unique from corporations in the fact that they represent a specific geographic space (Renn, 2016). Place is fixed and tightly bound by geographically territory that does not move (Renn, 2016) whereas people can migrate and move from location to location.

For Florida (2002) and Glaeser (2012), “place” is the location where people and businesses chose to locate, and these clusters of people are the real drivers of economic development. These researchers argue the geographic location attracts people and the people attract business; the central contention being that certain geographic locations embodies with specific characteristics attract productive workforces. While Florida (2002) and Glaeser (2012) agree that place matters they disagree on the specific characteristics that attract productive people, and more importantly the nature of the characteristics. For purposes of the arguments in this project, the characteristics and qualities of a city that induce workers to locate there will be divided into two buckets- characteristics influenced by government and characteristics independent of government action.

For Florida, governments can play a role in building programs to build an environment that attracts business. To a certain degree, Florida's original three "t" and later 4th "t"- territorial assets- can all be impacted and influenced by government action. For this project, the comparative analysis of Virginia highlights several examples of place-based incentives to attract Amazon. Virginia demonstrates how investing in the "space" where people live ultimately benefits both residents and future companies such as Amazon. Virginia's incentive package included several investments in the community such as upgrades to two metro stops (see Figure 2.2), pedestrian bridges, improvements in infrastructure in the surrounding neighborhoods, massive expansion of tech higher education[9] including the construction of a Virginia Tech campus focused on innovation in Alexandria, and expansion of George Mason University's tech program in Arlington (McCartney, 2018). These direct investments in the community are place-based in nature representing investments beneficial to both Amazon and all their neighbors.

[9] Amazon said this was an initiative by the state and not something that the company proposed (McCartney, 2018).

Figure 2.2: Virginia's Investments in DC Metro for Amazon and residents

Source: Slatt, C. (2018, November, 14). Here are 5 new infrastructure projects we'll likely get with Amazon. *Greater Greater Washington*. Retrieved From https://ggwash.org/view/69866/crystal-city-national-landing-virginia-new-infrastructure-get-amazon

For Harvard economist Edward Glaeser (2012), place-based incentives attracting people and businesses are natural forces largely uncontrolled by humans. Geographic locations with sunny, dry climates is one the place-based incentive that attracts people and business. While Nevada may not have historic investments in people which have resulted in building or attracting the "creative class," Nevada has the natural climate Glaeser contents will attract workforce and business (Glaeser, 2009). Nevada is the third sunniest state in the U.S. Southern Nevada, averages 294 sunny days per year, well above the national average of 205 days a year (Wittstein, 2019).

Power of People-based Investments

Despite the definition problems within the literature concerning "place-based investments," many scholars point to the significance businesses place on historical people-based investments. Florida and Feldman conclude that geographic innovation is usually dependent on an area's technological infrastructure consisting of: university R&D, industrial R&D, agglomeration of related industry, and specialized business services (Feldman & Florida, 1994, p. 225). The researchers make a bold conclusion that "locational advantage would seem to reflect cumulative investments in human and technological capability in specific places, more so than the conventional natural advantages of land, labor, and capital" (Feldman & Florida, 1994).

Existing literature points to how investments in higher education led to future new business development from within the state and was a factor in attracting new business from out of state. Ann Markusen, Peter Hall and Amy Glasmeier (1986) provide insight on the effect of university research expenditures on economic development. Researchers Adam Jaffe (1989), David Audretsch and Maryann Feldman (1996) look at geography and innovation and how the co-locating of university and industrial R&D at state level has a positive effect on innovation. Most significantly, this research begins a substantive move away from the norm of research focused on production (Audretsch & Feldman, 1996) and begins a more concentrated examination of the linkage between geographic or spatial dimension and economic development later relied on by Florida (2002) and others.

According to Author Kevin Kelly, "the New Economy operates in a 'space' rather than a place, and over time more and more economic transactions will migrate to this new space . . . geography and real estate, however, will remain, well . . . real. Cities will flourish, and the value of a distinctive place, such as a wilderness area, or a charming hill village, will only increase" (Kelly, 1998, pp. 94-95). This is very similar to Florida's later contention that "place and community are more critical factors than ever before" and "the economy itself increasingly takes form around real concentrations of people in real places," because place remains the center of economic activity due to the fact that firms cluster together increasingly more in a snowball type effect (2003, p. 4).**[10]**

Rent Seeking- Smokestack Chasing

Economist Gordon Tullock popularized the concept of rent seeking behavior (1967) while studying tariffs and monopolies. Although Tullock described rent-seeking activity, he did not use the term. "Rent-seeking" was reintroduced[11] into literature by World Bank Chief Economist Anne Krueger (1974) seven years later. Together these two economists are the mother and father of "rent seeking," and the seminal works on rent-seeking by both Tullock (1967) and Krueger (1974) have been cited more than 8000 times (Hall et al., 2019, p. 72).

When placed within the arena of economic development, rent seeking behavior by large job creating ventures tends to lead to an increase in rents proposed by governments as the competitive bidding among the different states drives up the cost of the rents. While the economic theory seeks to explain how government intervention and involvement generate "higher than normal returns" for the economy as a whole (Rosen, 2013, p. 123), the cost to governments engaged in rent seeking can become "self-generating in that offense creates a demand for defense. If one feudal lord builds an army, his neighbor

[11] Rent-seeking was coined by economist David Ricardo over one hundred years earlier.

does so as well; if a customer hires a lawyer, his supplier must do likewise; and so on" (Schleifer & Vishny, 1998, p. 82). In the case of using rent seeking as a tool for economic development, the competitive race to attract companies by states is a clear example of this "self-generating" (Murphy et al., 1993, p. 409) reality of rent-seeking as bidding wars between the states creates an escalating cost to the rents being proposed and ultimately offered. In Nevada, is clear to see this effect in the legislative record where legislators focused on the need to compete with rent seeking behavior, and the belief that without a massive incentive package Nevada would lose the opportunity to bring Tesla to the state.[12]

Rent seekers also have the "strength in numbers" phenomena where they are protected because, "if only a few people steal or loot, they will get caught; but if many do, the probability of any one of them getting caught is much lower, and hence the returns to steeling or looting are higher" (Schleifer & Vishny, 1998, p. 82). This is particularly true when it comes to rent-seeking in the space of economic development. Large scale economic development opportunities like Tesla and Amazon promise immediate construction jobs and long term-jobs at the respective companies. Construction trade labor unions, committed to adding work to the pipeline for their members, became immediate advocates and "strength in numbers" in the corridors of the legislature (Schleifer & Vishny, 1998, p. 82). These highly organized stake holders, intimately familiar with lobbying the governing bodies deciding on what rents to provide, provide ample cover as they promote an immediate injection of economic activity when the hundreds or

[12] While the incentives may have ultimately been necessary, the state could have minimized the fiscal impact of their abatements and maximized the promised return of generating economic development by focusing on where best to locate the rent-seeking opportunity as discussed in Chapter 5 below.

thousands of construction jobs materialize shortly after the project is secured. In the case of Nevada, days before their historic vote to give Tesla unprecedented tax incentives, officials from building trade groups drove legislators out to the job site to see the massive earthmoving equipment to feel the excitement of the opportunity adding pressure to the decision in front of them.

Governments looking to attract rent seekers can learn valuable historical lessons from Brazil and Tennessee. While existing research provides valuable insight into the consequences governments faced in the wake of their smoke stack chasing efforts, it could be unrelatable or unknown to local and sub national policymakers engaged in growing their regional economies. Comparing the more familiar experiences of metropolitan regions in this project could provide more relatable data for U.S based policymakers as well as international policymakers who are more likely to visit the metropolitan units used in this study than the jungles of Brazil or the rolling farm hills of Tennessee.

The COVID-19 Pandemic and Future of Rent Seeking

Understandably, researchers have not had much time to analyze the impact the pandemic will have on the future of rent seeking. Although the majority of this project was completed during the ongoing 2020 COVID-19 global pandemic, some literature concurrent with the pandemic is starting to analyze the pandemics impact on workforce and global markets. While uncertain if these established practices will be long term trends, there is some evidence that the pandemic has unlocked new ways of doing business that may stick around long after the pandemic is over. The new ways to understand and define a “place of business” or “corporate headquarters” may have the most destabilizing effect on a government's expectations of the rent seeking corporations. New technologies, spurred on by the pandemic, are disrupting the physical and geographical constructs of enterprise (Khalifa et al., 2021) creating potentially more transient industries untethered to any particular geographic area. This unknown adds to the uncertainties already facing policymakers trying to predict the future when analyzing the prudence of incentive packages while competing for the latest economic development opportunity interested in relocating with its promise of new jobs and economic development. Many times, the projected return on investment of government abatements is based on the expectation of the business staying and operating even after the abatements sunset; however, the ability for business to more easily relocate today should be a factor considered by policymakers.

Summary

The creative class theory provides a compelling reason why states should prefer policies which promote establishing and growing the creative class as a significant economic development tool to attract new enterprise. Aligning the creative class theory as a driver for the value of people-based investments can inform policymakers of the value of using people-based economic incentives to attract economic development. This present study looks at how Virginia's historic investment in the development of a creative class has been subsequently leveraged to attract economic development, including Amazon H2Q, and how Nevada used a largely placed-based incentive approach to attract Tesla. This project explores how historical institutionalism guides policy creation and makes it difficult for institutions to break the influence of history and to look outside the box for alternative methods of economic development.

CHAPTER 3: THEORETICAL FRAMEWORK

Overview

This project uses the creative class theory to frame policy alternatives and uses the approach of historical institutionalism to analyze the role public institutions play in influencing policy preferences to better understand whether company-based or people-based incentives should be preferred by policymakers offering economic incentives to attract new enterprise. Why policymakers in Nevada preferred company-based incentives to attract Tesla to Northern Nevada may be best answered using historical institutionalism to explain the influence of Nevada's institutions on steering decision-making. The policy preferences evidenced in the case study of Nevada, as well as the policy preferences present within the comparative analysis of Virginia, are consistent with Streeck and Thelen's (2009) historical institutionalism approach to understanding ways institutions are internally structured by their history with some evolving patterns based on the global pressure and demographic changes (Campbell, 2004). Additionally, this study will add to the approach of understand the historical development of intuitions by expanding the approach of historical institutionalism to explain how the institutions themselves impact policy formation in a particular time and place (Pierson, 1993; Pierson 2016).

Rent seeking theory describes Nevada's historic rent seeking approach of using company-based incentives to induce economic development, and Florida's (2002) creative class theory helps frame Virginia's use of people-based incentives to create an attractive environment for economic development. The subsequent chapter utilizes a sensitizing scheme to better understand how the theories and approaches above influenced policy formation in Nevada.

Historical Institutionalism

Winston Churchill said, “The farther backward you can look; the farther forward you are likely to see.” History matters; understanding the context of the past helps understand where we are, and more importantly where we are going and how we are likely to get there. Too often policy decisions are understood through the realities of today's world; thereby, ignoring the purpose behind legislative intent and its impact on the future. At its core, historical institutionalism is an approach that attempts to illuminate how political and policy struggles are mediated by the institutional settings in which they take place (Thelen, 1999).

For these social science researchers, it was important to deconstruct the processes of decision-making and break down the world around them into its constituent parts to better understand those parts independently from one another. While this micro analysis was taking place, another body of social science moved in the direction of grand theorists applying a macro approach to the real world around them (Steinmo, 2008, p. 152). For purposes of this project, it is important to understand how the history of the institutions and the policymakers working within them assimilate together into policymaking patterns with outcomes dependent on historical pressures.

This project focuses on the examination of the actual legislative packages offered to Tesla and Amazon and places them within their comparative and historical contexts to better understand the role institutions in Nevada played in structuring behavior. The questions of this project are not motivated by the desire to push any particular methodology or argument, but the desire to better understand why Nevada selected and provided Tesla the kinds of incentives ultimately prescribed in statute. The empirical investigation of the research questions in this project revealed that “history matters” and the institutional structures in Nevada had profound effects on shaping the process, outcomes, and ultimately the incentive packages offered to Tesla. This reality is best understood and framed around the approach of historical institutionalism.

Problem with Historical Institutionalism

As discussed in the preceding chapter, historical institutionalists provide useful theories of the endogenous development of institutions; unfortunately, the causal impact the institutions themselves have on political outcomes is less developed within the discipline (Capoccia, 2016, p. 1095). Identifying how institutions become “object(s) of strategic action” (Hall, 2010, p. 204) is central to this project’s attempt to fill some of the gap in current research on how institutions themselves structure those interactions (Capoccia, 2016, p. 1096). The formation of Nevada’s institutions were influenced by “rent seeking” stakeholders who then became members of the organizational institutions created. Historical institutionalism is an approach that helps understand the impact of history on the evolution of the institution, and in the case of the Nevada legislature, the institutional organization itself is structuring interactions and policies around the same history. Even when exogenous forces helped Nevada develop a thoughtful approach to economic development during the 2011 session through the *Unify, Regionalize, Diversify: An Economic Development Agenda for Nevada* (Muro et al*.,* 2011), the moment a real-world opportunity of Tesla came, the state’s institutions effectively reverted back to policies exhibiting the historical rent seeking preferences of the institutions. Historical institutionalism provides a useful approach to structuring and orienting the analysis of this project and its attempt to add Nevada’s experiences to the gap in research.

History matters, not just as reference points for analysis, but “when” events happen within the historical context the events matter and impact the trajectory of policy formation. Gerschenkron’s (1962) study of the process of industrialization in Russia demonstrated that the process of industrialization is different for late developers than for early developers. This project uses a qualitative historical institutional approach to avoid losing the significance of this insight easily missed in quantitative analysis (Steinmo, 2008, p. 165). The specific timeframe when government in Nevada formed, how the state formed, and the context around its formation matters and has a direct impact on the state’s future.

For Nevada, the “when” economic development policy was created really matters. There were two fundamentally important creation points for the establishment of economic development policy in Nevada; first, the initial economic development structure and corresponding codes were created in the wake of the intense pressure created by the global economic recession in 2009; second, Nevada created specific economic development incentives for the first time to attract an enterprise during an intense multi-state bidding war to win Tesla’s new Gigafactory with its thousands of promised jobs to a state facing historic unemployment. Clearly, the “when” mattered and impacted the creation of these economic development policies. The context of history matters, and Schattschneider (1960) and Pierson (2000) demonstrate that choices policymakers make at an earlier point in time have important consequences on choices that are later made, and in some instances the choices that are available. The policy choices made in Nevada to invest in economic development in 2011 are not independent from the economic incentives offered to Tesla in 2014, and both of these are not independent from Nevada’s early experiences with rent seeking corporations, ultimately making this project viewed from the lens of historical institutionalism skeptical of the very notion of variable independence (Steinmo, 2008, p. 166).

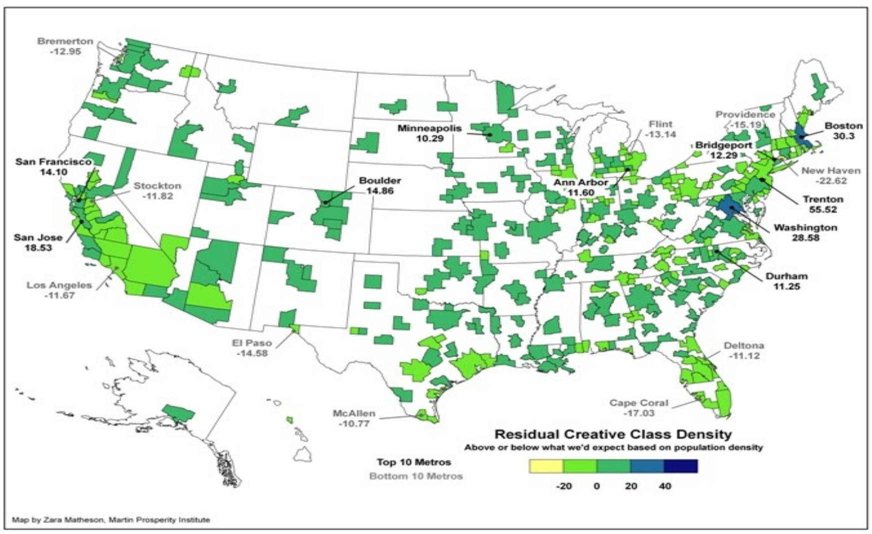
In Nevada geography plays an important part in the formation of early institutions and is ever present in policy formation today. The significance of geography is particularly true within state institutions, because any given institution within the state apparatus is embedded within a larger set of institutions all of which have been largely drafted and formulated by bureaucrats residing within the northern part of the state. As described below, geography played a significant part in Nevada's formation and evolution as a state. The geography of institutions in Nevada matters, because rules can fail to understand uniqueness in other geographic areas of the state or appreciate the need to optimize the state's best interests over geographical interests within the state.

Creative Class Theory

As described in the preceding chapter, Florida challenges the traditional view in much of the economic development theory research which focuses almost exclusively on the behavior of firms when selecting locations for economic expansion. Florida's focus on the people and the place they live is central to this projects analysis of people-based incentives packages as an alternative to government economic development endeavors. Place, in the sense of geographical location, is central to this project's proposition that companies will chase place and collections of talent, thereby challenging the status quo reality of state's chasing companies with large company-based incentive packages. The particular assets of a community provide a better indicator to better understand the regional capabilities and how those capabilities attract economic development in and of themselves thereby reduces the overall cost of company-based incentives needed to induce the company. “Talented people are drawn to places that have an abundance of jobs . . . and places that attract talent attract companies” (Florida, 2014, p. 198). For this to occur, policymakers must make the investment in people and place as a driver of economic development.

As presented in the previous chapter- and highlighted in the analysis of Brazil and Tennessee below in Chapter 7- there is a significant body of literature highlighting the use of government incentives to build a stronger economy. These examples provide substantive information regarding specific case studies of government induced economic development and smokestack chasing. However, existing research does not do a good job distinguishing between the different tools governments use to attract a specific economic development opportunity and categorizing them into company- or people-based options. Additionally, despite many examples of government attention and adopting tenets of the creative class theory (Bloomberg, 2012; Evans, 2009; Florida, 2014; Norton, 2018; Peck & Theodore, 2010), little attention has been paid to how institutions impact the implementation of the theory and the stickiness or durability of future adherence to investing in people. In other words, policymakers can incrementally invest in creating a culture and climate attractive to prospective businesses which takes time before there is a return on the investment, or policymakers can provide immediate incentives to secure a new business resulting in an immediate return on the investment which largely benefits the company and its shareholders. Policymakers do not have to start from scratch, because the creative class is everywhere (see Figure 3.1), and the prevalence of an existing creative class provides a foundation for policymakers to build policies on strengthening and growing this sometimes-hidden driver of economic development.

Figure 3.1: Creative Class Density in the U.S.



Source: Richard, F. (2010). *Creative Class Density.* The Atlantic. September 14, 2010. Retrieved from https://www.theatlantic.com/business/archive/2010/09/creative-class-density/62571/

Who makes up the Creative Class?

Using the U.S. governments most current system of Standard Occupational Classification System codes introduced in 1998, Florida breaks the creative class into two major subcomponents- a 'Super-Creative Core' and 'Creative Professionals."

Super-Creative Core:

This group consists of about 12 percent of all U.S. jobs, and includes a wide range of occupations in science, engineering, education, computer programming, and research. The Super-Creative Core also contains a small subset made up of arts, design, and media workers. Florida considers those belonging to this core group to be "fully engage in the creative process" (2002, p. 69). Members of the Super-Creative Core have a primary job function of being creative and innovative. "Along with problem solving, their work may entail problem finding" (Florida, 2002, p. 69).

Creative professionals:

This group of workers are made up of the classic knowledge-based professions which include professionals working in healthcare, business and finance, the legal profession, and education (see Table 3.1). These workers rely on their educational attainment to "draw on complex bodies of knowledge to solve specific problems" (Florida, 2002).

Table 3.1: The Creative Class

List of major occupational groups within the two categories defining the creative class
Creative class
1. Super creative core
Architecture and engineering occupations
Life, physical, and social science occupations
Computer and mathematical occupations
Education, training, and library occupations
Arts, design, entertainment, sports, and media occupations
2. Creative professionals
Management occupations
Business and financial operations occupations
Health care practitioners and technical occupations
High end sales and sales management occupations
Legal occupations

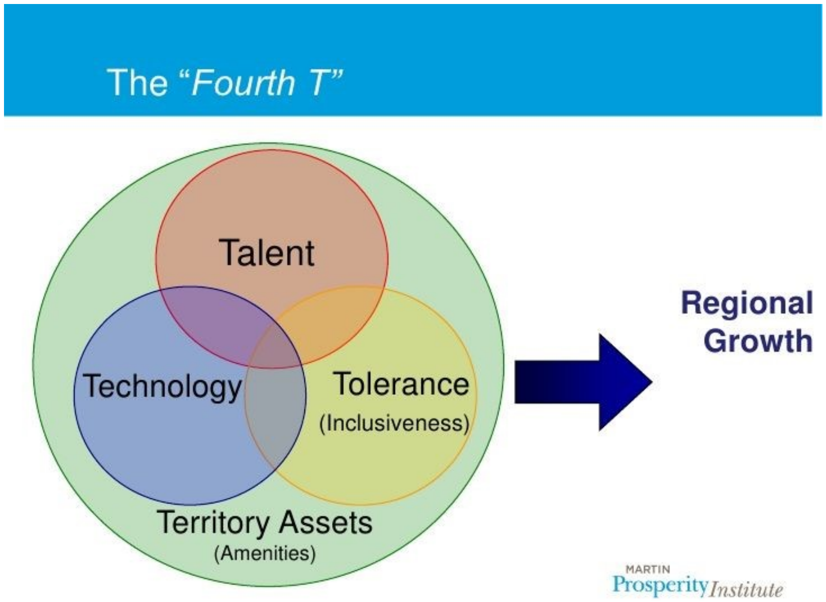
Adapted from Florida, R. (2012).

For purposes of this project, Nevada has one of the lowest population shares of creative class jobs in the nation; whereas, the metropolitan region of Washington, D.C. has the nation's largest population share with creative class jobs (Florida, 2019b) further highlighting the use of Virginia for comparative analysis of Nevada's case study.

Florida's First Three Ts

As describe in the preceding chapter, a central problem for this project is that researchers have left the distinction between people- and company-based incentives, also referred to as 'place-based' in early literature, allusive and undefined (Spencer, 2002, p. 5). The absence of clear definitions for the two distinct incentive structures can create confusion within the policy arena and frustrate a targeted approach to creating and tracking precise and reliable differences within the incentive packages created to entice economic development opportunities. The creative class theory's "3- T's" provides useful categories to help identify and separate investments as either people or company based. Although the "3-Ts" concept" is the kind of catchy expression that chamber of commerce types love and yet drives many academics nuts" (Lang & Danielsen, 2005, p. 204), the categories provide a framework to help discuss the economic incentives created by policymakers (see Figure 3.2).

Figure 3.2: The "Ts" of the Creative Class



Source: Rakestraw, A. (2017). *The New Creative Class Crisis: A Critical Review of Creative Class Theory.* Retrieved from https://dspace.library.uu.nl/handle/1874/356327

Technology

For Florida, "technology is what enables capitalism to constantly revolutionize itself, ensuring its vitality" (2014). Scholars have long focused on the importance of technology in economic development. In fact, the longest chapter in Karl Marx's most detailed analysis of capitalism, *Capital*, is dedicated to technology and its impact on the working class (1887). Joseph Schumpeter, one of the most influential economists of the early 20th century, theorized that technology would concentrate ownership and wealth towards large corporations (1947). In 1987, Robert Solow won the Nobel Prize in Economics for his neo-classical theory of achieving economic growth through adding more capital, labor, ideas and new technology- this conclusion ultimately led him to devise a mathematical formula regarding technology's contribution to economic growth (1956).

Florida measures the presence of technology in several ways. The concentration and growth of high-tech companies within a region are central to identifying the presence of technology. Measuring innovation by identifying the number of patented innovations per 1000 people and the growth of patent innovation is another way Florida measures technology. The technology base present in a region is both a necessary condition for and a result of a region having a strong creative economy that helps attract the creative workforce (Stolarick, 2009). For purposes of this project, incentives offered by Nevada will be analyzed through a technology lens to determine the incentive's impact on technology within the region.

Talent

Talent is a pure people-based factor that focuses on the concentration of creative people made up by Florida's Super Creative Core and Creative Professionals categories. These individuals cluster in places that are centers of creativity and have a stronger relationship with economic growth (Stolarick, 2009). Governments often tout their favorable business client. According to Florida there needs to be a favorable "creativity climate" to create the clusters. This idea is supported by Nobel Prize winning economist Robert Lucas who contends that "the driving force in the growth and development of cities and regions can be found in the productivity gains associated with the clustering of talent" (Florida & Gates, 2002, p. 35).

The "talent" factor is measured by bachelor's degrees and above; percentage of scientists, engineers, artists, musicians, designers; and those who make up the super creative and professional's class. This is similar to Paul Romer's theory of endogenous growth where investment in research and development and education yield measurable returns over the long term (1994). For this project, the incentives offered by Nevada will be evaluated through a lens to determine their impact on "talent" by assessing effect on higher education, research, college graduation, and other drivers of a creative climate cluster.

Tolerance

Florida's view of "tolerance" and its impact on economic development has been the subject of much scholarship. The "tolerance" factor has been one of the more "hotly debated factors" of Florida's research (2014) and presents some problems for this project as well. Tolerance can be seen when people in urban settings from different backgrounds collide on the street and "rub shoulders" with other residents (Wilson, 1986). In the simplest terms "tolerance" is seen as diversity. It is measured by the percentage of population that is foreign born, the percentage of gay and lesbian population, the percentage of nonwhite and nonblack, the percentage of interracial marriages, and more. Florida relies heavily on the Gay Index developed by demographer Gary Gates to identify the clustering and concentrations of gay population (Gates & Florida, 2001). The percentage of gays do not cause creative clusters; however, if gays feel comfortable in a place it is a good indication that immigrants, ethnic minorities, and others will feel comfortable (Florida, 2014).

For purposes of this project, the government incentives are not decidedly crafted in a way to squarely fit within Florida's "tolerance" factor; however, the promotion of diversity can be seen within the incentives offered to Tesla and is clearly present in the legislative record. While at the same time, often economic development incentives have a certain protectionist element infused within them. For example, common state requirements that a certain percentage of the projects jobs must be given to residents of the state is contrary to the underlying assumptions of welcomeness and inclusiveness central to Florida's "tolerance" factor. What is apparent in this project is how policymakers in Nevada largely ignored the significance of tolerance when directing Tesla where to locate in the state.

4th T: Territorial Assets

In a follow up to his bestselling *The Rise of the Creative Class* (2002), Florida further refines his thoughts on the creative class in *The Rise of the Creative Class Revisited* (2012). His new book provides another decade of research to support his original 3-Ts and adds five new chapters as well as introduces "territorial assets" which he identifies as "quality of place" as the fourth key factor in attracting the creative class (Florida, 2012, p. 281). Territorial assets are measured by economic growth, housing, culture, climate, education, healthcare, recreation, levels of crime, amount of inclement weather, and transportation. In short, it is the "'what's there" (the built and natural environment), "who's there" (diverse people), and "what's going on" (vibrant street live, café culture, arts, music, and outdoor activities) (Natekal, 2018, p. 10). Policymakers have the ability to impact some of these specific assets and help create and promote the type of environment that will attract the creative class (Florida, 2012).

Florida does not give specific details of the fourth T only broad descriptions of the environment. The territorial assets are an environment where a variety of amenities encourage and facilitate social interaction and integrate work and community (Florida, 2012). For this project, looking at economic development incentives through a lens of the fourth T is difficult to operationalize. This is partially due to the lack of specificity within Florida's factor regarding specific characteristics and the reality that the "environment" type approach is more than one specific thing. However, most large economic development opportunities are attracted to state level incentives.

In Nevada, Tesla was attracted by state incentives and had some flexibility on where they located within the state. In fact, Tesla's first several self-initiated trips into the state were to Southern Nevada, and it was not until the Governor's office learned of the visits to Southern Nevada that Tesla was invited to come explore their future home in Northern Nevada. While the incentives may not be constructed in a way to build a territorial asset, the state may have the ability to steer an economic development opportunity in a way to take advantage of existing territorial assets to ensure future success of the project and- in the case of Tesla- provide an environment to better capture future expansion and development surrounding the project.

Rational Choice and Policy Preferences

The rational choice modeling provides some insight into policymakers preferences when awarding economic incentives, and helps to explain why policymakers often prefer company-based incentives over people-based incentives. As discussed in Chapter 7, three different governors were one of the most significant differences between the three different times Tennessee provided incentives to GM. These different elected officials all ignored evidence of the dangers of smokestack chasing, and incredibly even ignored their state's own direct experience with chasing the exact same smokestack- giving new meaning to doing the same thing (and then a third time) and expecting a different result.

When it comes to preferences between company- or people-based economic incentives, the elected officials tend to make policy choices motivated by self-interest, utility maximization, and goal fulfillment as theorized by rational choice scholars (Petracca, 1991, p. 289). Direct company-based incentives provide the kind of photo op, positive press, and immediate results sought after by enterprising elected officials. The ceremonial shovels, hard hats, oversized scissors and large red ribbons provide more immediate political gain. Company-based incentives are easily connected to the economic project allowing policymakers to connect their decision to award company-based incentives to the immediate flurry of economic activity. Credit seeking elected officials bound up by path dependency are often unable to separate from the appeal of company-based incentives for the less concrete long-term investment of people-based incentives where the measured success of the investment could be decades away from the policy action responsible for the success.

Summary

Drawing from the historical institutionalism approach, this project analyzes how institutions, from the rules to the organizations operating under the rules, impact decisions. Embedded within political organizations is a predetermined path that guides future decisions and eliminates future options. The creative class theory provides new insight into drivers of economic development and provides policymakers additional factors to consider to further efforts to bring jobs and diversify their economy. However, self-interested policymakers will have to overcome the lure of highly visible and credit seeking opportunities connected to smokestack chasing behaviors in order to adapt people-based investment strategies toward economic development. High profile, competitive and game changing economic development opportunities place policymakers in difficult must win positions where sophisticated and skilled corporate negotiators overwhelm eager policymakers and bureaucrats.

CHAPTER 4: RESEARCH METHODOLOGY

Overview

This project utilized a mixed methods research design where document analysis, news coverage, in-depth semi-structured interviews, and analysis of legislative records analyzing economic development policy formation in Nevada were systematically integrated with descriptive statistics of Nevada's historical allocation of tax abatements. Additionally, the project analyzes the frequency company-based and people-based approaches were taken within the incentive packages offered by Nevada to Tesla as compared to the packages Virginia and New York offered Amazon. This study adds to existing literature on company-based and people-based economic development, by highlighting the key metrics most likely to attract economic development to a state. This project identifies what a state needs to do to overcome structural deficiencies in historical investments in people-based incentives to attract new economic development. The study looks at how Nevada had to make aggressive company-based incentives to Tesla to overcome the state's historic inadequate investments in its people. The study also provides guidance for state and local governments creating public policy to diversify their economies and compete at the national level for businesses looking to expand or relocate. More importantly, the project highlights the need for policymakers to invest in their people now or pay for it later- at a much higher cost in both dollars and lost opportunity.

Rationale for Mixed Methods Methodology

The main objective of this research is to identify institutional and path-dependent influences on policy formation, and to inform policymakers of differing outcomes associated with government based economic incentives offered to attract business. This project relies primarily on a qualitative case study analysis of Nevada within a mixed methods approach to address the research questions presented below. Due to the nature of these questions and the level of exploration needed to answer them, the qualitative method is especially valuable for the construction of this project (Stake, 1995; Tuli, 2010, pp. 8-97), and the mixed methods approach provides a more complete and synergistic utilization of data (Wisdom & Creswell, 2013). The use of historical institutionalism as a primary approach of analysis within this project partially dictates the heavy reliance on a qualitative method with its corresponding sensitivity to context (Neuman, 2011). The qualitative research design includes many of the data sources such as observation, document analysis, news coverage, in-depth semi-structured interviews, and legislative records relied on in this project (Denzin & Lincoln, 2005).

The qualitative research method of semi-structured interviews is a primary source of data gathering the narratives for this project (Tuli, 2010, p. 100). Understanding the influence of the institutions on Nevada policymakers requires the examination of the spoken experiences through interviews, written documents, and discourse surrounding the bills of the 28th (2014) Special Session of the Nevada Legislature which awarded economic incentives to Tesla in order to avoid losing the significance of the insight easily missed in quantitative analysis (Steinmo, 2008, p. 165).

The mixed methods research design adds depth to the understanding (Perry, 2012) and helps balance biases inherent in using qualitative or quantitative methods alone (Hendren, et al., 2018). The use of mixed methods research designs is on the rise because the method helps us better understand and address complex public policy issues through improving the quality of evidence and foundation of knowledge (Hendren, et al., 2018). The semi-structured interviews in this project help add context to the decision-making experiences of policymakers bound up and influenced by historical institutionalism. Additionally, the interviews go beyond the textual analysis of the incentives awarded to Tesla.

Research Questions

The research questions in this project are:

> **RQ_1**: What role does the historical evolution of Nevada's public institutions have in the policy preferences for people- or company-based investments?
>
> **RQ_2**: Do companies prefer company-based more than people-based economic incentives, and which did Tesla prefer?
>
> **RQ_3** Why does Nevada pursue company-based incentives despite the empirical research suggesting their ineffectiveness?
>
> **RQ_4**: Do these observations recommend a particular investment strategy for policymakers seeking to attract new enterprise?

The examination of these questions seeks to explain and identify institutional influences on policy formation in an effort to better inform affected policymakers, and offer differing outcomes and policy choices associated with government based economic incentives offered to attract business. Using the mixed methods research design, this project relies on interview responses and publicly available data to answer the research questions presented.

Case Study Typology

The case study approach of this project helps gain a deep understanding of the complex circumstances through an in-depth investigation of stakeholders involved in crafting public policy. In particular, this project analyzes Nevada's 2014 efforts to bring Tesla to Nevada through government economic incentives crafted in the legislation of the 28th Special Session of the Nevada Legislature. The analysis of policymakers engaged in a specific two-day special legislative session is best explored and understood within the context of a case study investigation.

For this project, the case study is utilized as more than just an "interpretivist frame" (Thomas, 2011, p. 512) but also through "neopositivist" means where specific variables are identified and studied (George & Bennett, 2005, p. 5). Studying the complexity involved in the real-world example of Nevada's policy choices embody the case study definition provided by Simmons as "an in-depth exploration from multiple perspectives of the complexity and uniqueness of a particular project, policy, institution, program or system in the 'real life' context" (2009, p. 21). The use of the case study in this analysis is not a method in and of itself (Thomas, 2011, p. 512), but a design frame that incorporates the mixed methods approach to this project.

The case study of the legislation in the 28th (2014) Special Session and how policy choices were influenced by the institutions of Nevada will be analyzed through the mixed methods design of this project (Stake, 1995, p. 443). This project looks at "the complex interactions of many factors" (Ragin, 1992, p. 5) present in the formation of the incentive package for Tesla in an intensive in-depth explanatory narrative emerging from the data collected in this case study (Thomas, 2011, p. 512). The case study's design, allowing for a researcher to study a “single unit of a small number of units, where the researcher’s goal is to understand a larger class of similar units (Seawright & Gerring, 2008, p. 296), is consistent with this project’s larger goal of informing policymakers of path-dependent influences and policy alternatives when engaged in economic development.

Metropolitan Statistical Areas

Nevada is a unique state, and much of the data uses the state as the unit of analysis which ignores the reality that in Nevada 88.9% of the state’s population lives in two counties- Southern Nevada’s Clark County and Northern Nevada’s Washoe County. In short, over 79% of the state’s population resides in Clark County, 15% live in Washoe County, and the remaining 11% of the population is spread throughout the state’s fifteen rural counties (U.S. Census Bureau). “Using the state as the unit of analysis inevitably obscures spatial processes that occur within a state or across state boundaries” (Feldman & Florida, 1994, p. 216). Clearly, the spatial processes and analysis of this project would be lost if Nevada was used as the sole unit of analysis. The economic data provided in this project provides a sub-state unit of analysis to identify functional linkages and dependencies (Czmanski & Ablas, 1989) as they are presented with a comparison between the Northern and Southern regions.

This project’s use of regional factors demonstrates the historical preferences of Nevada as viewed within the historical institutionalism approach. This analysis highlights Nevada’s reliance on the state and in particular the regional tax base from the south to pay for the incentives offered to Tesla in the north. By itself, the Northern Nevada Metro Reno-Carson region could not afford to provide Tesla the incentives. They relied on the taxes collected in the south to offset the abatements to Tesla. This project uses sub-state units of analysis in Nevada to analyze the historical regional preferences to give greater explanatory power to the institutional impacts of policy formation. To a certain extent, the comparative analysis of Virginia also requires a sub-state analysis, because Virginia is really four unique parts- Richmond, Tidewater, Northern and Western. Therefore, the sub-state analysis provides better comparative aligning with this projects case study.

Data Sources

This project uses the mixed methods approach to collect and assimilate both primary and secondary data. Content analysis used to build the case study of Nevada relied on publicly available data including executive orders, resolutions, bills, reports, legislative journals, as well as news media coverage surrounding the 28th (2014) Special Legislative Session of the Nevada Legislature (see Table 4.1).

Table 4.1: Publicly Available Sources of Data Related to the 28th (2014) Special Legislative Session

28th Special Session Publicaly Available Data	Type of Document	Number of Documents	Source
Executive Orders	PDF Documents	1	https://www.leg.state.nv.us/Session/28th2014Special/Docs/Proclamation.pdf
NV Executive Report on proposed project from Governor	PDF Documents	1	https://www.leg.state.nv.us/Session/28th2014Special/Committees/A_Committees/docs/01%20COW%20Exhibit%20GOED%20Tesla%20Summary%20Report%20Analysis.pdf
Bill Draft Text(s)	PDF Documents	4	https://www.leg.state.nv.us/Session/28th2014Special/Reports/
Documents from Assembly, Senate Meetings	PDF Document Exhibits to Committtee of the Whole	7	https://www.leg.state.nv.us/Session/28th2014Special/Committees/A_Committees/COW.cfm
NV H2Q Proposal	Video	1	https://www.youtube.com/watch?v=vPhlqjYYRnA
State and Nationl Media Coverage	Webpages	6	
Press Releases	PDF Documents	1	https://www.tesla.com/blog/nevada-selected-official-site-tesla-battery-gigafactory

The comparative part of this project analyzing Virginia's use of economic incentives to attract Amazon will use information collected from publicly available resources including executive documents, regional reports, as well as media coverage surrounding the selection of Northern Virginia for Amazons corporate expansion. Table 4.2 below identifies the types of data examined for this project.

Table 4.2: Publicly Available Sources of Data Related to Amazon H2Q in Northern Virginia

Virginia	Type of Document	Number of Documents	Source
Bill Draft Text(s)	PDF Documents	2	https://www.leg.state.nv.us/Session/28th2014Special/Reports/
VA H2Q Proposal	PDF Documents	1	https://issuu.com/teamsubjectmatter/docs/nova_r1_proposal_full_doc_single_pa
National and State-Level Media Coverage	Webpages	4	
Press Releases	PDF Documents	2	https://www.governor.virginia.gov/newsroom/all-releases/2018/november/headline-834007-en.html https://www.aboutamazon.com/news/company-news/amazon-selects-new-york-city-and-northern-virginia-for-new-headquarters

The Nevada legislature is a part time legislature meeting biennially on odd years for a 120 calendar days session. This unique structure creates challenges addressing normal day-to-day business within the state and becomes particularly challenging when addressing sudden, and rapid emerging issues such as competing within the fast-paced arena of economic development. Since the 2011 adoption of formal economic development centered institutions, Nevada has been required to convene three different

Special Sessions of the legislature to address time sensitive economic development projects. The 28th Special Session of the Nevada Legislature began on September 10, 2014 at 12:41PM and adjourned sine die the next day on September 11, 2014 at 9:51 PM. Most of the publicly available government sources are bound by this narrow window of time and readily available on the Nevada Legislature's website (www.leg.state.nv.us) through the Nevada Electronic Legislative Information System (NELIS) database as shown below on Figure 4.1.

Figure 4.1: Screenshot of Nevada Electronic Legislative Information System (NELIS) Database Webpage for 28th Special Session of the legislature (2014)

Source: 28th Special Session of the Nevada Legislature (Nev. 2014). Retrieved from https://www.leg.state.nv.us/Session/28th2014Special/

The NELIS database also provides the exhibits associated with the 28th Special Session which includes most of the publicly available documents created by the government that were used in this project. The 28th (2014) Special Session of the Nevada Legislature was 33 hours 10 min long from start to finish, this includes the evening hours when the legislature was adjourned, the legislature was only in session for a little more than 21 hours. The special session consisted of one Senate Bill and three Assembly Bills, and the majority of the incentives were outlined in SB 1. The NELIS database provides all the exhibits for the session including the *Economic Impact of Tesla on Washoe and Storey Counties* (GOED, 2014a) and *Tax Inventive Analysis for Tesla in Storey County, NV* (GOED, 2014b). These two studies were critical documents provided to the legislature by the Governor's Office of Economic Development outlining the impacts and significance of Tesla for the state of Nevada. These publicly available documents are found on NELIS and provide this project and future researchers interested in state-level policymaking easily accessible and transparent information for analysis. For this project, the publicly available documents are used to inform and provide an in-depth understanding of the pressure of the compressed timeframe, quantity, and quality of information available to legislators considering one of the Nation's largest economic incentive packages ever put together.

Sensitizing Scheme

The case-study approach used in this project requires an analytical scheme to help organize key concepts within defined classification schemes "that denotes the key properties, and interrelations among these properties within the social universe" (Turner, 2001, p. 14). "The concepts of the scheme chop up the universe; then, the ordering of the concepts gives the social world a sense of order" (Turner, 2001, p. 14). According to Turner, the "explanation of an empirical event comes whenever a place in the classification scheme can be found for an empirical event" (Turner, 2001, p. 14).

This project will utilize a type of analytical scheme referred to as a sensitizing scheme. Turner describes the concepts within this scheme to be "more loosely assembled congeries of concepts intended only to sensitize and orient researchers and theorists to certain critical processes" (Turner, 2001, p. 14). Unlike the naturalistic scheme on the other end of the spectrum of analytical schemes, the sensitizing scheme is "more skeptical about the timeless quality of social affairs" (Turner, 2001, p. 14), recognizing that the one constant quality of human activity is change. Therefore, the linkage between the concepts of the sensitizing scheme must always be "provisional and sensitizing" and must be "flexible and capable of being revised as circumstances in the empirical world change" (Turner, 2001, p. 14). The sensitizing analytical scheme is often foundational and a necessary prerequisite to begin theorizing.

The analytical sensitizing scheme used in this project will rely on a qualitative analysis of a case study of Nevada which includes quantitative analysis of the company-based investments in Nevada between 2011-2019. This project's qualitative approach will consist of an extensive analysis of the specific legislative records surrounding the legislative efforts in Nevada during the time the state was working to attract Tesla as well as a historical analysis of the people and company-based investments Nevada and Virginia made.

This project will analyze several different levels of policymaking and historical conditions impacting the traditional methodical and slow formation of policy as well as intervening market conditions which can lead to accelerated policymaking. By utilizing a sensitizing scheme, the project can move from an analysis of how policy is made on the state level to the individual characteristics of localities and the impact of these characteristics on the decision of companies making the decision to select one state over another.

The analysis will look at levels of policymaking from the state level to the local level. At the macro level this project will look at some historical institutional differences directly and indirectly impacting the decision-making at the state level in Nevada and Virginia. At the state level, the project will analyze the specific legislative packages offered to Tesla by Nevada and to Amazon by Virginia and New York. These legislatively approved packages can shed light on deficiencies at the local level that needed to be overcome to induce the company to locate there. The packages can also highlight the strengths of the state and local area when minor additions are added to an asset valued by the company to accommodate their specific business needs.[13]

IRB Approval of Research Protocol

The Exempt Research Application and research protocol for this project's qualitative semi-structured interviews was submitted to the University of Nevada Las Vegas Social and Behavioral Institutional Review Board (IRB) for review on April 21, 2021. The initial determination of exempt status for this project was made on May 21, 2021 (See Appendix A). On January 5, 2022 an IRB Modification request was submitted to make minor modifications to limit the scope of this project, the number of subjects

[13] For example, the METRO added a stop for the Amazon headquarters demonstrating the value of the asset and the need to incorporate a small addition so the business could fully utilize its beneficial purpose to a region.

interviewed, and modify the survey questions. The Administrative Review Modification Acknowledgement and final determination of exempt status for this study was made on March 15, 2022 (See Appendix B). The qualitative interviews were collected in accordance with this IRB exemption and approval between the dates of January 14, 2022 and February 25, 2022.

Semi-Structured Interviews

The validity of this mixed methods project design is achieved by triangulation through the convergence of information from different sources. The project began with an in-depth case study of Nevada with its associated comparative analysis of Virginia. Next, confidential and voluntary semi-structured in-depth qualitative interviews were conducted with subject matter experts to examine the experiences and perceptions of policymakers and stakeholders involved in the case study of Nevada. Each question in the interview protocol was created to help identify the intentions of the policy actor and the influence of historical institutionalism on their policy preferences. The interview protocol was used to gather the facts and opinions surrounding the events leading up to the 28th (2014) Special Session as well as the session itself. This method allowed the researcher to frame the discussion within the context of the predetermined set of IRB approved questions (see Appendix D), while also allowing the researcher to ask clarifying and follow-up questions to garner more relevant and important data as intended by the semi-structured interviews.

In adherence with this scope, a total of seven individuals were interviewed for this project, including state government officials, individuals representing higher education, and officials at the city or county level (see Table 4.4 for interview participant categories).

The individuals were selected based on their participation in the 28th (2014) Special Session of the Nevada Legislature and invitations for interviews and all subsequent communications with participants were disseminated utilizing the University of Nevada Las Vegas Social and Behavioral Institutional Review Board (IRB) approved scripts via the University email. All participants were provided with a confirmation of their scheduled interview, which included meeting information such as time, date and location of the interview.

In addition to this confirmation email, all interviews were emailed a preview of the twelve interview questions approved by the IRB for reference and preparation, and participants were informed that to protect their privacy and provide ample confidentiality the researcher would obtain verbal consent at the beginning of the interview. All interview participants were asked what interview platform would be most convenient to them, with the choice of either face-to-face, phone, or virtual interviews; however, due to complications with the ongoing pandemic all interviews were scheduled and conducted as phone or virtual interviews. The initial individuals to be interviewed were identified by the researcher prior to scheduling any interviews, and then after the first round of interviews the researcher identified individuals commonly named in the first round of interviews to invite to subsequent interviews.[14] All of the interviews were recorded with a voice recorder and the researcher took notes during each interview. The interviews lasted between 45 and 90 minutes. The information collected from these interviews provided the required context for understanding the phenomenon of policy choice formation on economic incentives at the state level from varying perspectives.

[14] There were two additional interviewees identified in the first round of interviews that were subsequently interviewed for this project.

Measuring Investments in Company or People Using the Creative Class

The mixed methods design of this project allowed the researcher to analyze the presence of company- and people-based economic incentives offered to attract new enterprise. The presence of people-based incentives was measured using the four factors of the creative class and company-based incentives was identified as incentives provided to the company directly. All of the incentives explicitly provided in the legislative package of the 28th (2014) Special Session as well as other inherent direct and indirect government action associated with Tesla locating in Nevada were then analyzed to identify policy preferences as either company-based or people-based preference. For quantitative analysis, the instances or manifestation of each preference was discussed to identify the policymakers preference and reliance on either company-based, people-based, or combined people and company-based incentive.

Measuring Nevada's Geographical use of Economic Incentives

This project used quantitative descriptive statistics to analyze the presence of creative class factors within Nevada. This project looked at level of infrastructure investment, how many passengers traveled through the airport in each region, education attainment of local residents, and diversity. Additionally, this project analyzed the amount of approved or withdrawn tax abatements provided by the state to projects located in Nevada. This regional based analysis of where incentives were located was used to analyze the state's influence on the creative class factor of territorial assets and how the state's prioritization of economic development aligns with its territorial assets. These data points are views through the lens of historical institutionalism to explain impacts on policy preferences.

First Person Experience Protocol and Researcher Biases

In order to avoid internal biases, many researchers stay away from research where they have inherent experiences. It could reasonably be argued that a researcher having first hand experiences with the events examined in a case study could provide unique and valuable insight for discovery; however, these same experiences could also create unintended researcher bias. In particular, the presence of internal biases in public policy research is even more likely the closer the researcher is to the dynamic, opinion packed, and often passionate environment surrounding policy formation. It has been said politics and policymaking is a full contact sport, and the events surrounding Tesla's move to Nevada were packed with concussive partisan, geographic, and ideological tensions.

The author of this present study is a local government official and was a registered lobbyist during the 28th (2014) Special Session and an active participate in the original conversations with Tesla regarding their interest in coming to Southern Nevada. Additionally, the author was the chief strategist and principal city official representing and coordinating the city's efforts in the four-day 29th (2015) Special Session of the Nevada Legislature to create a new incentive package to attract a major economic development opportunity to Southern Nevada. Personal experiences with driving economic development in Nevada and connections with policymakers featured in this project and case study influences and strengthens the author's perspective on this project and enhances the analysis presented. The selection of this project is drawn from the researcher's direct involvement in the events leading up to and during the 28th Special Session and Nevada's efforts at diversification during the past decade.

The mixed methods design of this project was selected to minimize any confirmation bias and navigate the strict personal bias inherent with a sole qualitative approach. The rigorous mixed methods design and triangulation of the data presented in this project was also utilized to minimize any biases. The selection of the specific interview participants was purposeful and the researcher intentionally identified stake holders from both political parties residing in both the north and south with different views on the role of government in economic development.

Summary

The mixed methods approach of this project and information gathered through the qualitative interviews of decision makers and stakeholders involved in the 28th (2014) Special Session of the Nevada Legislature have increased the understanding of policymaking preferences and pressures operating within historically bounded institutions as they create and award economic incentives. The subsequent chapters present data on the impact of institutions in creating path-dependent options for policy formation via document analysis, and individual perceptions of policymakers in the 28th (2014) Special Session via interviews. The methods of research in this study allow the author to confidentially present a robust analysis of Nevada's historic incentive package to Tesla and its implication for future policymakers operating in an increasingly connected global economy with its evolving realities.

CHAPTER 5: NEVADA CASE STUDY FINDINGS

Overview

This chapter outlines the historical creation of Nevada's institutions and the findings of the data collected in the case study of the 28th (2014) Special Session of the Nevada Legislature. The data for this case study is collected from legislative proceedings, legislative record, technical exhibits to the bills, the language of the bills, and media reports to analyze the policy preferences of policymakers during the session. Viewed through a lens of historical institutionalism, this chapter explores how Nevada's rent seeking policy preferences result in company-based incentives being awarded in the 28th (2014) Special Legislative Session. Using rent seeking and the creative class theory, this chapter introduces two distinct policy options available to policymakers when crafting incentive packages to attract or expand enterprise to generate economic development.

Early Nevada- Applying Historical Institutionalism

Nevada provides an ideal subject for this case study's exploration of policymakers preferences between using people- or company-based incentives to attract economic development. Historically, Nevada is a state born from a rent seeking territory and its original institutions embody a policy preference of company-based incentives. Additionally, Nevada has one of the nation's least diverse economies which has been prone to large booms and busts during the past two large economic crisis- the Great Recession of the late-2000s and the most recent global economic crises created by the COVID-19 pandemic. Following the Great Recession, Nevada policymakers began efforts of economic diversification through developing new institutions to attract new economic development opportunities. The state's unique history and new focus on economic diversification provide a valuable case study where shifting policy preferences bound up within path-dependent institutions, resistant to change and conditioned by their past, are examined to identify the impact of transitioning policy preferences. Nevada's rent seeking history encourages company-based incentives to overcome the state's neglect of people-based investments.

Nevada was first institutionally created from the territorial expansion of the Utah Territory where settlers created a squatter government- establishing bylaws and regulations to govern the farming and trading community. The period between 1857 and 1861 was described as an "era of anarchy and confusion" in the territory (Bowers, 2006, p. 11). The first local government was set up by settlers from The Church of Jesus Christ of Latter-day Saints (Mormons). This resulted in decades of tension between Mormons and non-Mormons in the territory until Mormons were recalled by Brigham Young in 1857 to Salt Lake City to prepare for the Utah War. This move created a power vacuum of chaos, lawlessness, and conflict where residents repeatedly tried to succeed from the Utah Territory and establish a territorial constitution. These efforts resulted in three dysfunctional governments operating in the territory: a provisional territorial government largely viewed as illegitimately elected through voter fraud; the Utah territorial government attempting to govern from the distant Salt Lake valley; and, the federal court authority which had two U.S. District Judges claiming authority- President Buchanan appointed R.P. Flenniken to replace Judge Cradlebaugh who refused to leave his position (Bowers, 2006, p. 13).

The nation's first major discovery of silver ore in 1859, known as the Comstock Lode, sparked a silver rush in Nevada that would result in businesses needing a government authority to protect their mining interests. The sudden unplanned influx of people with competing conflicts over ownership rights ended Nevada's experiments with ineffective and chaotic institutions incapable of settling conflict and protecting property rights. Residents, aided by Nevada's fledgling mining industry, earnestly worked to establish a functional regional government.

On March 2, 1861 President Buchanan signed legislation establishing the Nevada Territory thereby paving the way for the creation of legislative, executive, and judicial branches of government. The first major political battle within the newly established legislature involved the generation of revenue for supporting the territorial government. A proposed mining tax on the territory's major enterprise was the first of many battles over taxing the state's first "smokestack" leading one observer to state, "the background of Nevada politics for thirty years was a fight of mine operators against paying taxes" (Lillard, 1942, p. 25). In fact, the opposition to taxing corporate mining profits lead to the defeat of Nevada's first constitution drafted by the constitutional delegates in 1863. The failed constitution unsurprisingly mirrored California's constitution, considering thirty-four of the thirty-nine delegates to the constitutional convention had come from California and had lived in Nevada for less than five years (Elliott & Rowley, 1987, p. 78).

Although mining interests had defeated the first attempt at statehood, political pressure from outside the territory would give the territory a second chance. President Abraham Lincoln and his congressional allies needed more votes in Congress to assure the two-thirds votes needed to secure passage of the Thirteenth Amendment to abolish slavery, and President Lincoln believed he needed Nevada's three electoral votes to win the upcoming 1864 presidential election (Bowers, 2006, p. 20). To accomplish these two goals, Nevada needed to become a state. Under the watchful eye of the federal government, a new convention dominated by mining interests was convened and the constitution from the failed convention of 1863 was used as a starting point. After a long and divisive fight over mining-tax, the delegates agreed to a mining exemption from taxes which states:

> The Legislature shall provide by law for a uniform and equal rate of assessment and taxation, and shall prescribe such regulations as shall secure a just valuation for taxation of all property, real, personal and possessory, except mines and mining claims (Nevada Constitution, art. X, sec. 1).

With the corporate mining incentives spelled out in the document, the 1984 constitution was overwhelmingly ratified and Nevada was quickly admitted into the Union as the thirty-sixth state just prior to the 1864 national elections.[15]

History of Investing in Place- Rent Seeking

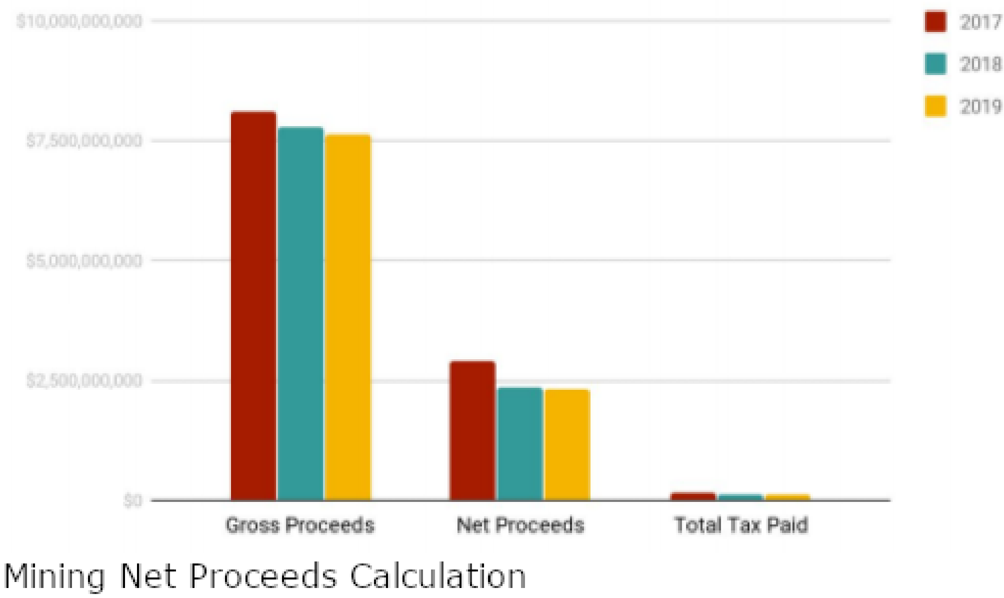
Nevada may be “Battle Born” but it was conceived in rent-seeking. The state’s new constitution is the most formal institution established in the State of Nevada, and the state’s foundational document contained company-based incentives clearly prioritizing rent seeking within the state. Institutions, defined as sets of laws or rules, are at the very core of historical institutionalism. For purposes of this project the definition of institutions is expanded to also include political organs. This case study of Nevada offers insight into historical institutionalism’s struggle with rent seeking within the state to frame the projects central task of understanding the conditions under which institutions and policies structure social behavior (Capoccia, 2016, p. 1096) and become objects “of strategic action” (Hall,

[15] Congress, waived the right to inspect and approve the constitution which was hastily “wired to the nation’s capital at a cost of $3,416.77, making it the longest and most expensive telegram ever dispatched in the United States at that time” (Bowers, 2006, p. 23).

2010, 204). The institutions in Nevada provide a window to analyze how institutions are structuring interactions with companies today. Even more important is how Nevada's current exogenous interactions with companies and policymaking to attract new enterprise are highly path-dependent with policy trajectories conditioned by Nevada's past (Peters et al., 2005, p. 1275). The state's 1864 constitution establishes an institution within Nevada which is later supported by self-reinforcing processes establishing a pattern making change difficult.

The 1864 Constitution of the State of Nevada represents the state's first institution which all other institutions (whether rules or government organizations) derive. Corporate interests are further enshrined in Article Ten which limits mining taxes to no more than five percent of net proceeds or the amount of money mining brings in after deducting all expenses (Nevada Constitution, Art. X, sec. 5). Over time, this constitutional guarantee allowed the legislature to create several specific deductions or loopholes significantly limiting mining's tax burden (NRS 362.120 [3] [a-m]), and further identified the policy trajectory and self-reinforcing processes associated with path dependency. The creating of these deductions on ordinary business expenses like costs of extracting minerals, transportation costs, industrial insurance costs, costs associated with reclamation to remediate the mines own damages are consistent with protections originally outlined in the state's constitution. For mining, these government benefits have resulted in a significant reduction in their tax burden and have established Nevada's institutions on a path favorable to corporate enterprise (see Figure 5.1).

Figure 5.1: Nevada Department of Taxation Net Proceeds of Minerals



Source: Sierra Club.(2021). It's Time to Reform Nevada's Mining Tax Laws. Toiyabe Chapter. Retrieved from https://www.sierraclub.org/toiyabe/blog/2021/04/its-time-reform-nevadas-mining-tax-laws

With the path clearly set, Nevada would continue favoring corporate interests and orienting laws and government organs around the historical lessons learned in the failed and successful passage of the state's constitution.

Bolstered by the favorable government treatment and the state's rich natural resources, Nevada's mining industry accounts for 70 percent of the country's gold and 30 percent of its silver production making the state one of the top three gold producers in the world (Bowers, 2006, p. 130). While mining was booming in Northern Nevada, gaming started to take hold as a key industry in the state's southern desert. With mining deeply planted within the state's institutions, gaming was seen as an industry that could provide a source of tax revenue to support the growing state and fund state government.

Gaming- Nevada's Second Industry

During the post war period, the gaming and hospitality sectors became Nevada's chief industry. As a prohibited industry throughout the country, gaming took an almost laissez-faire don't rock the boat type approach to government, where gaming kept their heads down and tried to conduct business without attracting government attention. This deferential approach to government combined with mining's constitutionally protected interests made gaming a prime target for taxes. Within a short period of time, gaming made up the largest share of the state's revenues, and eager policymakers supported by the mining industry devised four different types of gaming taxes. Taxes on the gross gambling income of each casino is the largest source of gaming tases, followed by a $250 annual tax on each slot machine, third is a live entertainment tax on all live entertainment in or out of a casino, and finally each gaming table is taxed.

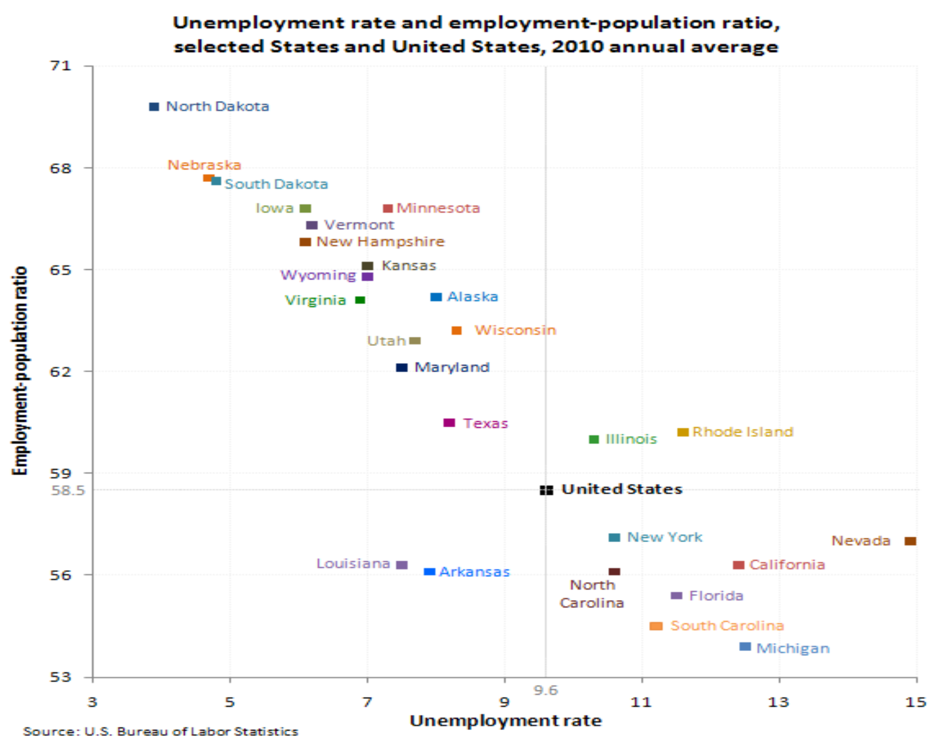
Geographically, the primarily southern gaming industry became another unsuspecting target for institutions oriented around northern interests. For the northern Nevada controlled legislature, gaming was an industry which could be taxed to shift the tax burden away from the constitutionally preferred mining industry. Additionally, the newly levied taxes could be collected in southern Nevada to support projects in other parts of the state. Although these taxes were generated and collected in southern Nevada, tax laws were written to divert the revenues to the north and rural parts of the state- far from where the taxes were generated. Proceeds from the gross gambling tax and the live entertainment tax go to the state's general fund for the legislature to appropriate wherever they want; 80 percent of the revenues from the slot machine tax are earmarked for education throughout the state and 20 percent "pay off bonds sold to construct and renovate the Thomas & Mack Center at the University of Nevada, Las Vegas and the Lawlor Events Center at the University of Nevada, Reno"; and finally, the gaming table tax primarily generated in Clark County- the state's southernmost county- is divided evenly among the states seventeen counties regardless of whether they have a gaming table or not (Bowers, 2019). According to scholar Michael Bowers, without the division of the gaming table tax "the less-populated counties in the state would have difficulty meeting their revenue needs" (2019, p. 118). This historical evolution of institutions in Nevada beginning with the preferential treatment for corporate mining interests now added a northern centric factor to the mix.

Nevada has typically been a one industry state, first mining and then gaming. A predominant reliance on gaming for state revenues may protect certain interests, but it makes the state's budget largely vulnerable to the fates of one industry. Over half of the state's budget relies on tax revenues from the relatively unstable and unpredictable gaming and sales tax (Bowers, 2019, p. 116). Unpredictable events like the terrorists' attacks of September 11, 2001, economic downturns like the Great Recession of the late-2000s, and global events like the COVID-19 pandemic are highly disruptive and create significant challenges for a state so reliant on an unstable tax base. The state's heavy reliance on hospitality and tourism combined with explosive population growth made Nevada one of the least prepared states to weather inevitable economic periods of expansion and recession.

Economic Crisis Demands Change Through Policy Action

As the 2008 economic crisis abated nationally, Nevada's recovery continued to lag behind the rest of the nation. The subprime mortgage crisis of the early-2000 recession had a profound impact in Nevada where the state's heavy reliance on hospitality and tourism revenues experienced sharp declines as disposable incomes dried up nationally. Local governments in Nevada built reliance on the revenues associated with building to accommodate the explosive population growth. Nevada was arguably the state hit hardest by the Great Recession of the early-2000s. It had the nation's highest rate of home foreclosures and lead the nation with the highest unemployment rate for three years- 2010 (14.9 percent), 2011 (12.9 percent), and 2012 (11.1 percent) (Bureau of Labor Statistics & Department of Labor, 2010; Bureau of Labor Statistics & Department of Labor, 2011; Bureau of Labor Statistics & Department of Labor, 2012) (see Figure 5.2).

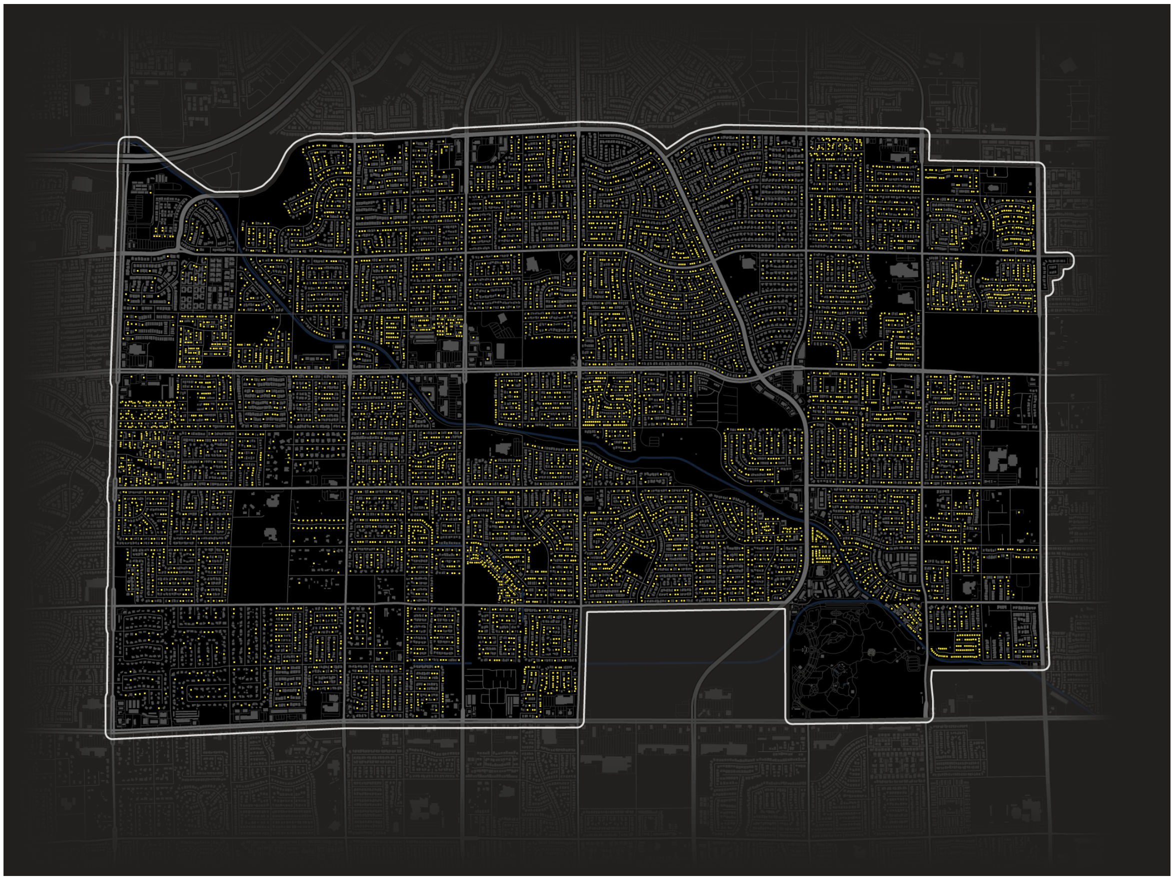
Figure 5.2: State Unemployment Rates in 2010



Source: Bureau of Labor Statistics, U.S. Department of Labor,
The Economics Daily, State unemployment rates in 2010
at https://www.bls.gov/opub/ted/2011/ted_20110301.htm (visited *January 17, 2022*).

In many ways, the Great Recession was a perfect storm for the state and local government revenues in Nevada. The state's economic growth in hospitality and tourism lead to explosive population growth creating high demand for housing. Between 2010 and 2020, Nevada was the fifth fastest growing state in the Nation (Mackun et at., 2021) and is expected to continue its fast growth through 2030 (Urban Institute, 2021). When you start having construction workers build their own house you begin to see how a major problem is developing on the horizon when the housing market slows and the construction worker finds themselves without income to support their new home purchases. Local governments in Southern Nevada structured budgets around the perpetuity of robust construction, despite the cyclical nature of the housing market. Meaning, the sub mortgage crisis of the Great Recession alone would have been devastating to Nevada because as home prices plummeted more than half the new residents had negative mortgage equity in their recently purchased homes. The world economic crisis dramatically impacted hospitality and tourism as disposable incomes dried up and vacation plans were altered. Additionally, businesses cut costs which impacted Nevada's robust business convention market.

Figure 5.3: Home Foreclosures in Zip Code 89031 Since 2006- 2018



Source: Goldstein, M., Gebeloff, R., Mantle, R., & Ruby, M. (2018, September, 12). The Epicenter of that Housing Bust is Booming Again. The New York Times. Retrieved at https://www.nytimes.com/interactive/2018/09/12/business/las-vegas-housing-crisis.html

In Figure 5.3 above, the yellow dots represent homes foreclosed in one Southern Nevada zip code from 2006-2018, representing more than one in three homes foreclosed at least once in the Las Vegas region. The national media repeatedly showed pictures of residential streets in Las Vegas lined with signs advertising homes for sale in front of almost every house on the street. The foreclosure crisis and high unemployment resulted in massive cuts to social programs and education.

State spending, in what could be considered "people-based investments" in the economic development arena, was impacted by the Great Recession. During good economic times, Nevada had low levels of spending on social programs, and naturally during bad economic times this spending decreased further. The state consistently ranks near the bottom of any national list assessing state provided social services (Bowers, 2019, p. 69).

Faced with these challenges, policymakers "made significant and extended cuts to education, public safety, health care, and other public sector budgets" (Tuman, et al., 2013). For purposes of this project, these cuts were clearly cuts to "people-based" investments further exacerbating problems associated with the state's history of not investing in its people. As the frequency and severity of the state's cycle of revenue shortfalls attributed to its one industry reliance piled up, policymakers became desperate to stabilize their tax base through economic diversification. To address its vulnerable economy a new era and reorientation of economic development began with the intention of growth through diversification and shifting from the rent seeking past. To drive new economic development to the state, Nevada began to organize and restructure economic development efforts within its institutions and regional organs.

Economic Development in Nevada

In 2011, the Nevada Legislature proactively and rapidly created the Governor's Office of Economic Development (GOED) to "promote a robust, diversified and prosperous economy" (A.B. 449, 2011),[16] and one of its first actions was to commission a state-wide economic development study. The Washington, D.C. based Brookings

[16] This came on the last day of the session, only minutes before the session concluded for its two-year hiatus. CITE

Institution: Metropolitan Policy Program, Brooking Mountain West on the campus of University of Nevada Las Vegas, and SRI International in Arlington Virginia authored the report- *Unify, Regionalize, Diversify: An Economic Development Agenda for Nevada* providing a significant blueprint to guide the state as it embarked on efforts to diversify and grow the state's economy (Muro et al., 2011). This report became a blueprint that was used to fully engage stakeholders in the state and began aligning economic development priorities in Northern and Southern Nevada.

With a blueprint in place, Nevada appeared fully committed to diversifying its economy and curing its overreliance on the hospitality and tourism sector through strategically targeted economic development. Most notably, GOED took the lead in attracting and vetting opportunities, and the state legislature embraced the role of rapidly creating real time incentive tools to attract new enterprise and expand existing Nevada businesses.

28th Special Session of the Nevada Legislature- Chasing New Smoke Stacks

In 2014, during a first of its kind 28th Special Session of the Nevada Legislature, the legislature developed the state's first real robust statewide economic incentive tools while simultaneously using them to close the deal to bring Tesla to Nevada. By all appearances the special session was for Tesla and the incentives created were for the company, however Nevada does not allow for this degree of specificity. The Nevada Constitution requires all laws passed by the legislature to be "general and of uniform operation throughout the state" (Article 4 sec. 21) meaning, the incentives could not be specifically for any one company (read Tesla) or any specifically "named" county as they must be 'general' and 'uniform.' Over the years, the Nevada Legislature has devised different drafting strategies to avoid this constitutional prohibition; and one of the more popular techniques being to draft laws which are general in nature, but constructively specific when applied. For example, if the legislature desires to write a law for a specific business in Clark County, the legislature will draft a law that only applies in counties with a population greater than one million residents. As the most populous county, Clark County's 2.2 million residents far eclipses the second most populous county Washoe with its 471,500 residents. Therefore, the law's construction is specific only to Clark County, without naming Clark County, much less the company the law was actually drafted for. While the session was legally convened by Governor Sandoval's proclamation to create economic incentive tools to diversify Nevada, the session was called to create state incentives to close the deal with Tesla and bring them to Nevada. The bills passed during the 28th Special Session did not mention Tesla by name, but the Governor's joint press release with Tesla announcing the special legislative session, and the clear legislative intent to create an incentive package designed for Tesla made it clear- the 28th Special Session marked a new way Nevada would continue along its historic smokestack chasing path.

Convening the Special Session

On September 4, 2014 Nevada Governor Brian Sandoval and Tesla Chairman and CEO Elon Musk issued a joint press release announcing that Nevada has been selected as the official site for the Tesla Gigafactory (Tesla, 2014). Up to this point in time, GOED Executive Director Steve Hill had successfully negotiated and constructed the incentive deal that would be presented to the legislature which, except for some legislative leadership, had largely been in the dark prior to the announcement. The announcement that Nevada won the intense competition among several states reverberated around the nation and world, yet the intended audience was the 63 legislators who were suddenly the only thing standing in the way of the incredible opportunity to have the "world's largest and most advanced battery factory" and its promise of "nearly one hundred billion dollars in economic impact" (Tesla, 2014). Similar to the experiences seen in Tennessee, the Governor announcing the selection of Nevada and then handing it off to the legislature to approve the deal put a tremendous amount of pressure on policymakers to not mess up the once in a lifetime opportunity (Gaventa *et al.*, 1990, p. 181), and all but guaranteed the legislature would acquiesce to the magnitude of the moment.

GOED Report

Five days after the joint announcement, Governor Sandoval issued an official proclamation on September 9th to convene a special session the next day. Between the announcement and the proclamation, the Governor's office released two reports, *Economic Impact of Tesla on Washoe and Storey Counties* and *Tax and Incentive Analysis for Tesla in Storey County, NV,* prepared by a third party outlining the economic impacts should Tesla win legislative support and the proposed government incentives (GOED, 2014a; GOED, 2014b). For many legislators, they received the reports along with the media and general public.

The *Tax and Incentive Analysis for Tesla in Storey County, NV* outlined the proposed incentives which would need legislative approval and the net new taxes that would be generated by Tesla over a twenty-year period (GOED, 2014b). The *Economic Impact of Tesla on Washoe and Storey Counties* provided a detailed analysis of the economic and revenue impacts on Storey County and the state generated by the jobs and investment Tesla was planning on making and the catalyst impact the project would have on attracting future development to the region (GOED, 2014a). As the only technical reports provided to the legislature, the reports were the primary documents policymakers relied on during the special session, and they represented the only substantiative economic impact analysis in preparation for the short special session which provided little time for substantive analysis of the two reports, preparation of additional reports, or mobilization of any opposition.

The two reports provided a “framework for understanding the economic and revenue impacts” Tesla would bring to Nevada (GOED, 2014a; GOED, 2014b). According to the analysis on jobs, Tesla’s $4.95 billion investment in buildings and equipment would create 9,000 direct construction jobs, an additional 4,700 indirect jobs in the first three years and upon construction of the building the factory would create 6500 direct on-site jobs, and 16,000 indirect jobs in the community. The jobs impact of the project would increase state employment by approximately 2% and regional employment by more than 10%. According to the reports, the direct economic impact generated would be nearly $40 billion over 20 years and indirect economic impact of another $60 billion over the same time. It would and add over 3% to the state’s gross domestic product and a more than 20% increase in the northern region’s gross domestic product. The enormity of the project was indeed “monumental” with the potential to, as Governor Sandoval stated, “change the world” (Tesla, 2014).

Limiting Structure of the Legislature

The excitement and attention of the potential project continued to build as the legislature prepared to convene and consider the world changing project. Nevada’s

Constitution allows the Governor to specify the day and time the session convenes and "state to both houses, when organized, the business for which they have been specially convened" further stating the legislature "shall not introduce, consider or pass any bills except those related to the business for which the Legislature has been specially convened" (Article 9, sec 1-2.). These constitutional provisions allowed the governor to quickly convene the legislative session in the middle of the intense media hype which provided limited time for close scrutiny of the proposed incentives or the projected benefits of the project.

The founding legal institutions of Nevada established in the constitution orient and prioritize the power structures within the state. Although the constitution provides for the traditional three branches of government, constructively they do not appear to be equal.[17] The treatment of the legislature within the constitution as a lessor branch of government is consistent with subsequent constitutional amendments regarding the legislature. The construction of Nevada's constitutional provisions limiting the scope of the session provide even more power to the executive branch's ability to influence the process and push through a project. The 1864 constitution originally limited the regular session to sixty days and the special session to 20 days. Consistent with this limiting treatment of the legislature, in 1998 the constitution was amended by voters to limit the session to 120 calendar days in a regular session. Plainly stated, Nevadans like their legislature best when it is not in session subscribing to Mark Twain's belief that, "No man's life, liberty, or property are safe while the legislature is in session."

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[17] Aside from the traditional three branches of government, the Nevada State Constitution also sets aside higher education as a fourth branch of government which has been the subject of much debate and disagreement in the legislature.

Legislation of the 28th Special Session

Passing the entirety of the incentive package for Tesla during roughly a 24-hour special session of the legislature may do little to inspire confidence that the best policy outcomes were achieved; however, the successful results of attracting one of the most nationally sought-after economic development opportunities speaks for itself, or does it? Following this apparent success, the state continued to use the approach of short special session of the legislature to attract the promise of multibillion-dollar projects to the state two more times during the 29th 2015 Special Session and the 30th 2016 Special Session. Quickly crafting economic development tools during hasty special sessions offers unique insight into the rapid transformation of state institutions which traditionally transform gradually over longer periods of time. Historical institutionalism can be used as a scientific approach to better understand the impact of the institutional setting that structures make on forming public policy (Steinmo et al., 1992, p. 2)

Incentive Package

The total inventive package to Tesla was $1.25 billion in sales tax abatements, property tax abatements, and other tax credits and reimbursements making it the 10th largest in US history (see Table 5.1). Notably, Nevada was providing more than double the $500 million package Tesla said would be needed (Damon, 2014) calling in to question the soundness of the deal. The sales tax abatements are for 20 years, the property tax abatements are for 10 years (during the time Tesla makes the vast majority of its purchases to tool the factory) with the other tax credits and reimbursements lasting between 10 and 20 years.

Table 5.1: Summary of Tax Revenues, Abatements and Reimbursements by Tax Type for Tesla

Sales Tax Abatements	
100% Sales and Use Tax Abatement for 20 yrs	($725,800,000)
Total Sales Tax Due After Abatements and Reimbursements (2015-2034)	*$0*
Property Tax Abatements	
100% Real and Personal Abatement thru June 2024	($348,993,972)
Total Property Tax After Abatements (2015-2034)	*$394,177,541*
Other Tax Credits	
100% MBT Abatement thru June 2024	($29,363,655)
Transferable Tax Credits-A	($75,000,000)
Transferable Tax Credits-B	($120,000,000)
Total MBT + Transferrable Tax Credits (2015 -2034)	*$40,225,011*
Total Utility Franchise Fee (2015 - 2034)	*$25,183,588*
Total Abatements and Reimbursements	**($1,104,157,627)**
Total Taxes After Abatements and Reimbursements	**$459,586,140**

GOED. (2014b). Tax Incentive Analysis for Tesla in Storey County, NV. Prepared by Applied Economics. Retrieved from https://www.leg.state.nv.us/Session/28th2014 Special/ Committees/ S_Committees/docs/COW%20Exhibit%20B%20%20Steve %20Hill%20(GOED).pdf

While these incentives fall within the definition of company-based incentives, the state also agreed to build the road connecting Tesla to Interstate 80 and extend the road to other parts of the privately owned industrial center at a cost of $100 million. In contrast to Virginia below, Nevada's investment in infrastructure is an exclusive benefit to the company and should be categorized as a company-based incentive. Nevada officials contend the eighteen-mile roadway will make the rural area more appealing for future business that can service the industrial center (Perea, 2014); however, there is not sufficient information in the legislative record or surrounding media reports to substantiate the benefit the roadway will have to the few residents residing in the area. Additionally, Assembly Bill 2 represents another example of a company-based incentive passed by the legislature allowing Tesla to bypass the state's auto dealer franchise requirements and sell cars directly to consumers through a manufacturer's store. The only people-based incentive is a requirement for Tesla to contribute $7.5 million a year for five years to education in the state for a total of $37.5 million. This structure allows Tesla certain additional federal tax benefits as the company makes the payments to Nevada's schools. The overwhelming reliance on company-based benefits follow Nevada's historical preferences embedded within the state's institutions.

Aside from smokestack chasing, the 28th Special Session predictably followed other historical institutional preferences. Following the creation of a *Unify, Regionalize, Diversify: An Economic Development Agenda for Nevada* in 2011 (Muro et al., 2011), the Nevada legislature took action to diversify by creating a film tax credit program in the very next legislative session (S.B. 165, 2013). Given the popularity of Las Vegas as a Hollywood backdrop, this $80 million program was designed to bolster the emerging industry in Southern Nevada; however, the program was gutted when $70 million was shifted out of the program and shifted to a northern interest. The policy choice to move funds allocated for diversification in southern Nevada followed the historical pattern of prioritization of northern interests over southern interests. Once again underscoring Nevada's lack of self-awareness of where things should go geographically.

In One Nevada, Geography Also Matters

Popular Nevada Governor Brian Sandoval made the slogan "One Nevada" central to his administration's narrative of a singular Nevada family (Hagar, 2014) in an effort to counter the traditional North-South divide entrenched in the state's institutions. In terms of geographic preferences, the "One Nevada" looks a lot like the old two (or more) Nevadas. Central to the Brooking's report *Unify, Regionalize, diversify* was the concept of the desire of Nevadans to 'get on the same page'" (Muro et al., 2011, p. 4). As highlighted in the report's title, "unify" was a central concept and underscores an existing divide the "intense five-month inquiry" sought to correct through recommendations that would lead to more even distribution of opportunities across the state. Interestingly, the report seeks to "unify" by embracing geographic differences and leveraging regional strengths by separating the state into regional industry networks and clusters to strategically align and target new opportunities (Muro et al., 2011).

Often, company-based investments create jurisdictional cherry picking where more sophisticated jurisdictions can reap the rewards of a localized economic development without directly subsidizing it. For example, within metropolitan regions made up of various governing entities, one local government can vote for a sports stadium deal and if a resident or business does not want to deal with the consequences of a new stadium, they can simply move to a neighboring jurisdiction, thereby avoiding the taxes yet still being able to enjoy the benefits of the new stadium. Often this reality allows the business seeking government incentives to pit one jurisdiction against another and wait on the sidelines as the competing jurisdictions drive up the overall incentive package in their effort to attract the business. For this reason, states often reduce the incentives local governments can offer. This is particularly the case in a Dillon Rule state like Nevada where the legislature has complete control over local jurisdictions.

In Nevada, the jurisdictional cherry picking occurred but did not follow the traditional localized regional model where a neighboring jurisdiction receives the benefit without the direct cost. The traditional line of thinking was flipped on its head because the south provides the money for the exploits of the north. Tesla and all the economic advantages flowing to the northern region of the state were isolated over four hundred miles away from taxpayers in the southern region paying over 80% of the cost of the incentives.

Nevada has a historical north-south divide. The phenomenon of geographical areas being treated differently by their governing body is well established in states where metropolitan regions develop after existing seats of power and where older cultural connections, traditions and beliefs are still present to challenge the emerging metropolitan region (Zelinsky, 1973). The growth of a metropolitan region requires an influx of people usually drawn from outside the state. These "outsiders" threaten the "subdued, yet meaningful, internal cultural heterogeneity of an older America is being supplanted by a novel mosaic, equally variegated but pieced together from newer materials and with new forces" (Zelinsky, 1973, p. 110). In Nevada, this dynamic allowed for the connected and settled cities of the North to exploit the disconnected discombobulated towns booming in the south. There disadvantages were further assisted by the fact that southern gaming interests were subservient to the northern controlled legal systems who had complete control over their southern based industry. This created a dynamic where southern interests were submissive and deferential to northern control creating a historic chasm between the traditional northern regional power and the new emerging southern power.

There are many examples of institutional manifestations of this north-south power chevage. Beginning with the constitutional protection of geographically fixed industry located in the north, this favorable treatment continued over time and is embodied institutionally throughout the state in government structures and statutes. The state statutes governing gaming and entertainment tax are written so that revenues generated in the south are collected and distributed to support state operations and public services provided in the north. In funding for education, the state allocates more per pupil dollars for students enrolled in institutions of higher education in Northern Nevada and a distributive education model funding K-12 provides more favorable funding treatment for schools in the North and rural areas of the state. In Southern Nevada, UNLV enrolls over 28,600 students and UNR in Northern Nevada enrolls 20,194. Despite UNLV being 34% larger the two schools are funded equally, and the schools both provided the same amount of physical teaching and research space despite their very different sizes (Morris, 2014). The unequal treatment is also seen in funding for infrastructure, roads, health outcomes, federal funding, and nonprofit support where Northern Nevada nonprofits receive more than twice the assets and revenue per capita from the state than Southern Nevada nonprofits (Morris, 2014).

This consistent unequal treatment of Northern Nevada continued with the incentive package put together for Tesla. The incentive package would not have been possible without the tax base from Southern Nevada which was used to pay for the incentives given to support an economic development opportunity located over 400 miles away. Nevada's natural assets, industry, geography, and population density are all factors that further this historic treatment. Urban Las Vegas vs rural cow counties, new residents flocking to the south vs old-timers with generational connections to the state in the north, and casino towns vs mining towns are all differences that bolster and support the divide. These differences create natural divisions making unity challenging for policymakers working within institutions molded by history, and when economic challenges unevenly impact the state, the challenge is even more difficult. Events like 9-11, the Great Recession and the COVID-19 pandemic expose the inherent regional differences manifested when rates of unemployment and home foreclosures were dramatically higher in Southern Nevada compared to other areas of the state.

Drafting an economic development agenda, creating GOED and the adoption of a state economic development plan were designed around recognizing the differences existing between the north and south (read “unify”), embracing and leveraging the differences (read “regionalize”), and working together as a state to evenly grow (read “diversify”); however, since the creation of GOED, the data suggests the state prioritized economic development opportunities locating in the north furthering Nevada’s historical regional preferences (see Table 5.2).

Table 5.2: Approved and Withdrawn Tax Abatements and Projects in Nevada, 2012-2020.

County	Population (2020)	Approved Projects	Approved Abatements	Withdrawn Projects	Withdrawn Abatements
Rural Counties					
Churchill County	26,202	2	$ 6,569,148	1	$ 386,500
Humboldt County	17,064	1	$ 915,437	0	-
Pershing County	6,983	1	$ 197,400	0	-
Total	**50,249**	**4**	**$ 7,681,985**	**1**	**$ 386,500**
Northern Nevada: Metro Reno-Carson City					
Carson City	56,434	2	$ 571,922	0	-
Douglas County	49,082	13	$ 2,633,142	3	$ 81,044
Lyon County	57,629	15	$ 11,318,337	5	$ 6,185,001
Storey County	4,304	30	$ 1,195,628,443	6	$ 17,566,820
Washoe County	473,606	67	$ 106,469,324		$ 21,028,700
Total	**641,055**	**127**	**$ 1,316,621,168**		**$ 44,861,565**
Southern Nevada- Las Vegas Metro					
Clark County	2,320,107	148	$ 380,536,825	45	$ 211,774,670
Nye County	48,414	1	$ 2,328,266	0	-
Total	**2,368,521**	**149**	**$ 382,865,091**	**45**	**$ 211,774,670**

Sources GOED, “Biennium Report to Legislature of Abatements from Taxation, 2021” and Nevada Department of Taxation, “Certified Population Estimates of Nevada’s Counties, Cities, and Towns 2000 to 2020 Estimates from NV State Demographer.

The state’s new economic development institutions are evolving consistent with the established geographical prioritization historically established within Nevada’s institutions. Surprisingly, there has been little attention given to the unequal distribution of these abatements despite the clear inequity. Distilling the allocation of abatements between two regions (Clark and Nye County vs all other Nevada Counties) and comparing it to the amount of revenue each region produces for the state’s coffers suggest the exact opposite percentage of abatements received should be allocated for equal treatment (see Table 5.3).

Table 5.3: Tax Abatements Received Per Region Based on Population

Region	Population	Abatements Received	% of State Population	% of State Revenue generated in Region	% of State Abatements Received in Region	Abatement Received Per Person
Northen Nevada	691,304	$ 1,279,055,088	**23%**	**15%**	**88%**	$ 1,850.21
Southern Nevada	2,368,521	$ 171,090,421	**77%**	**85%**	**12%**	$ 72.24

Sources GOED, “Biennium Report to Legislature of Abatements from Taxation, 2021” and Nevada Department of Taxation, “Certified Population Estimates of Nevada’s Counties, Cities, and Towns 2000 to 2020 Estimates from NV State Demographer.

The table above demonstrates the effects of institutional preferences for Northern Nevada. Incredibly the path dependency of favoring the north is so strong that it continues today despite the overwhelming majority of representation of elected officials from Southern Nevada in the legislature. In the Nevada Senate 16 of the 21 districts are located in Clark County, and in the Nevada Assembly 31 of the 42 members of the Nevada Assembly represent districts in Clark County. In the case of Tesla, despite 74% of the members of the legislature elected from districts in Southern Nevada, the scales were tipped due to the fact that Governor Sandoval is from Northern Nevada with a long history of representing his Northing Nevada neighbors as an elected official. In fact, until Nevada Governor Steve Sisolak’s election in 2018, Nevada had never had a governor who graduated from UNLV, Nevada’s largest university located in Southern Nevada. However, it is worth noting that despite this fact, the vast majority of Governor Sisolak staff were assembled from Northern Nevada where the state bureaucracy is located and where local residents make up the vast majority of the staff in all three branches of the state’s government.

The north vs south concern with Nevada's historical regional preferences was discussed extensively during the 28th Special Session. During GOED's presentation of the incentive package, Senator Mark Manendo stated "one of the concerns I have heard over the years regards funding for transportation. Last Session we brought forward a bill to rework the Transportation Board due to the inequalities that have occurred in this State from the north to the south," and then inquired if the infrastructure required for Tesla would be "a shift in dollars from the south to the north" (Nevada Senate, 2014, p. 32). Senator Ruben Kihuen asked, "What would you say to my constituents in southern Nevada who do not want to subsidize this project for northern Nevada jobs?" (Nevada Senate, 2014, p. 26). Senator Justin Jones pressured the state by asking "What assurances can you give us that when companies take advantage of the provisions of this bill, they will not look only to northern Nevada or the Salt Lake area, but rather to southern Nevada first" (Nevada Senate, 2014, p. 28). These examples of legislators directly addressed the regional debate combine with the universal description of the project as a "Northern Nevada" project, not a Nevada opportunity, underscore the regional considerations present and the awareness of the presence of this historical factor.

During testimony in the Assembly, where the north vs south argument simmered barely below the surface for much of the day, in response to a statement and question regarding the number of different companies choosing to expand in Clark County, the governor's office stated:

> "In fact, Mr. Musk, who is the chairman of Tesla Motors, is also the chairman of Silver City. The first company that was related to Mr. Musk's business ventures chose Las Vegas. The second choice he has made is here in northern Nevada and, obviously, this was his choice directly" (Nevada Assembly, 2014, p. 104).

Although nothing in the questioning asked if it was Tesla's choice to locate in Northern Nevada, the revealing testimony shows the hypersensitivity if not omission to the concerns of where Tesla ultimately chose to locate. The facts remain, when Tesla first came to Nevada on their own to explore a location for their Gigafactory, they came to Southern Nevada multiple times. When their self-selection of Southern Nevada became known, they were contacted by stake holders in Northern Nevada and whisked away to visit Northern Nevada for the first time (Elkind, 2014).

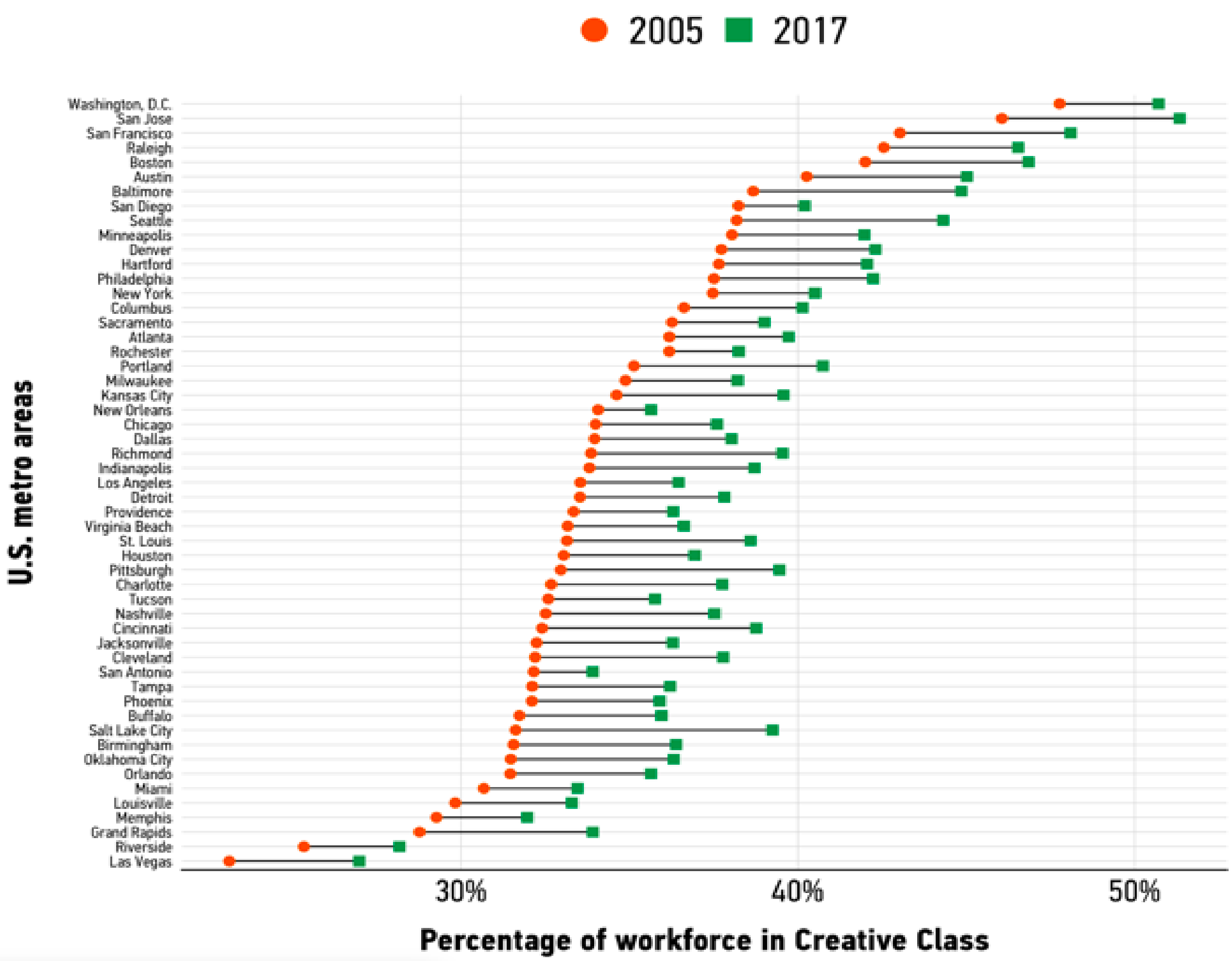
Applying the Creative Class Theory to Nevada

Nevada's constructive and deliberate use of the newly created institutions and abatement policies to divert and direct economic development to specific areas of the state are antithetical to arguments of ideal economic development and model city building advanced by Richard Florida's *The Rise of the Creative Class* (2003), Edward Glaeser's *Triumph of the City* (2012), and others. In 2014, Nevada specifically steered Tesla away from Southern Nevada's larger population and the more robust metropolitan region made up of the state's three largest cities and induced Tesla to build its $4.5 billion factory in the middle of the desert 25 miles away from the state's 4th largest city. Locating in Northern Nevada instead of Southern Nevada sacrifices the intrinsic value Gaeser places on density and the advantages Florida gives for robust technology, talent, and tolerance.[18] While these regional preferences are consistent with the path-dependent direction historically established within the state's institutions, the creative class theory provides a useful critique to better inform policymakers. Data shows that the creative class in

[18] The insufficient workforce, lack of housing inventory and ancillary corporate service providers made it difficult for Tesla to build their planned project and impossible to scale any future expansion or attract indirect economic development opportunities.

Nevada's largest metropolitan region is growing and beginning to outpace other metropolitans providing informed policymakers an opportunity to realign historical policy preferences toward leveraging the creative class as an asset (see Figure 5.4).

Figure 5.4: Growth and Change of Creative Class in U.S. Metros



Source: Fenske, S. (2019). St. Louis Is in the Top 10 Metro Areas for Growth in the Creative Class. *River Front Times*, Jul 12, 2019. Retrieved from https://www.riverfronttimes.com/newsblog/2019/07/12/st-louis-is-in-the-top-10-metro-areas-for-growth-in-the-creative-class

Territorial Assets

This project operationalizes this factor by analyzing Nevada's use of existing territorial assets to attract Tesla. There is a lot of uncertainty regarding the future success of economic development projects and their long-term commitment to new locations. Within the "smokestack chasing" arena, companies attracted by incentives are susceptible to relocate when the incentives sunset. Strong "territorial assets" can offer a stabilization of sorts where workforce becomes anchored to a community providing more integration and connectedness to a place. When a geographical location is of intrinsic value, the unmovable territorial assets can shore up some of the uncertainty and risk facing policymakers intent on investing in a long-term relationship.

Comparison of North vs South

Place matters, and for Tesla, the company was interested in the incentives the state had to offer them for locating within it. Given that Tesla first went to Southern Nevada and then to Norther Nevada, the actual location within the state was less important than the hundreds of millions in subsidies. For policymakers from Southern Nevada, they saw the Tesla locating to the north as an opportunity to finally end Northern Nevada's historical reliance on revenues generated from tax payers in Southern Nevada. They also saw it as an opportunity to establish a reliable local economy in Northern Nevada. While putting an economic anchor like Tesla in Northern Nevada could provide significant gain for the region, the economic projections from the state predicted Tesla would become over 25% of the local GDP (GOED, 2014a) making the entire region reliant on the success of one relatively new company which at the time had yet to have a profitable year (Mackenzie, 2020).

Tesla would instantly induce the migration of a creative class. In the first few years Tesla moved more than 900 engineers into the Reno-Sparks Metropolitan area. While these employees are initially with Tesla, tech companies have some of the highest level of employee turnover of any industry, and Tesla is no different with employees staying an average of 2.1 years (Fagan, 2018). Given this reality, policymakers should focus on which region was better positioned to capture this turnover and keep the talent in the region. Putting Tesla to Northern Nevada creates a one company region with limited employment options for turnover employees. Southern Nevada has more significant territorial assets more likely to retain tech talent.

Airports

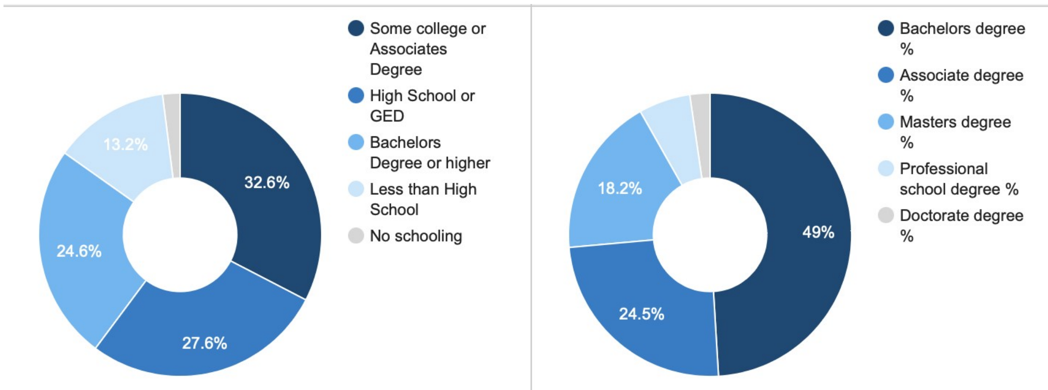
Harry Reid International Airport in Southern Nevada is one of the ten busiest U.S. airports, significantly more accessible and convenient than the Reno/Tahoe International Airport. In 2021, Reno/Tahoe International Airport had 104,654 passengers pass through it and 93,636 aircraft operations, averaging 256 per day. During the same time, Las Vegas Harry Reid International Airport had 39,710,493 passengers pass through it and 486,540 aircraft operations, averaging 885 per day. For Richard Florida, the airport is seen as the "biggest investment a community makes in its future" and one of the most strategic decisions a community can make for its future (2008). With Southern Nevada's airport over 40 times larger than Northern Nevada's airport there is little comparison to which airport provides more support and options for the creative class.

Educational Attainment

Education is a central characteristic of members of the creative class and the regional presence of educational attainment suggests the presence of the creative class.

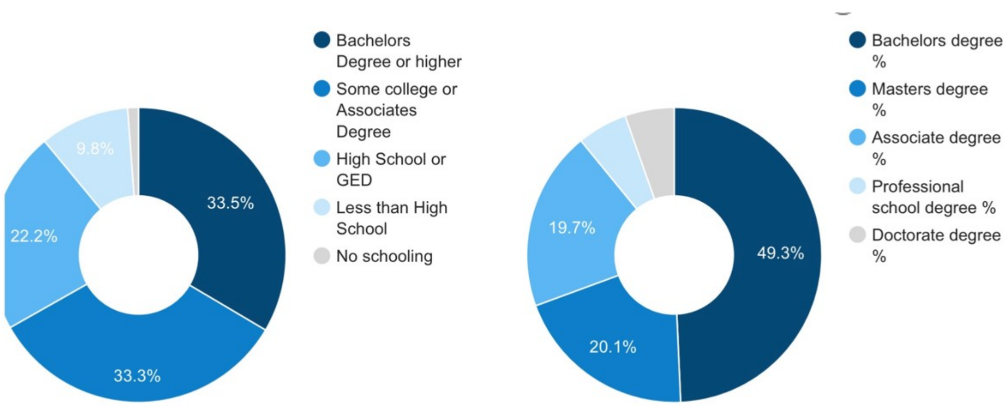
Additionally, levels of education of local residents are a significant workforce factor considered by businesses looking to locate in the region (see Figure 5.5 and Figure 5.6).

Figure 5.5: Las Vegas Educational Attainment Breakdown



Source: Town Charts. (2020). *Las Vegas, Nevada Education Data*. Retrieved from https://www.towncharts.com/Nevada/Education/Las-Vegas-city-NV-Education-data.html#Figure1

Figure 5.6: Reno Educational Attainment Breakdown



Source: Town Charts. (2020). *Reno, Nevada Education Data*. Retrieved from https://www.towncharts.com/Nevada/Education/Reno-city-NV-Education-data.html

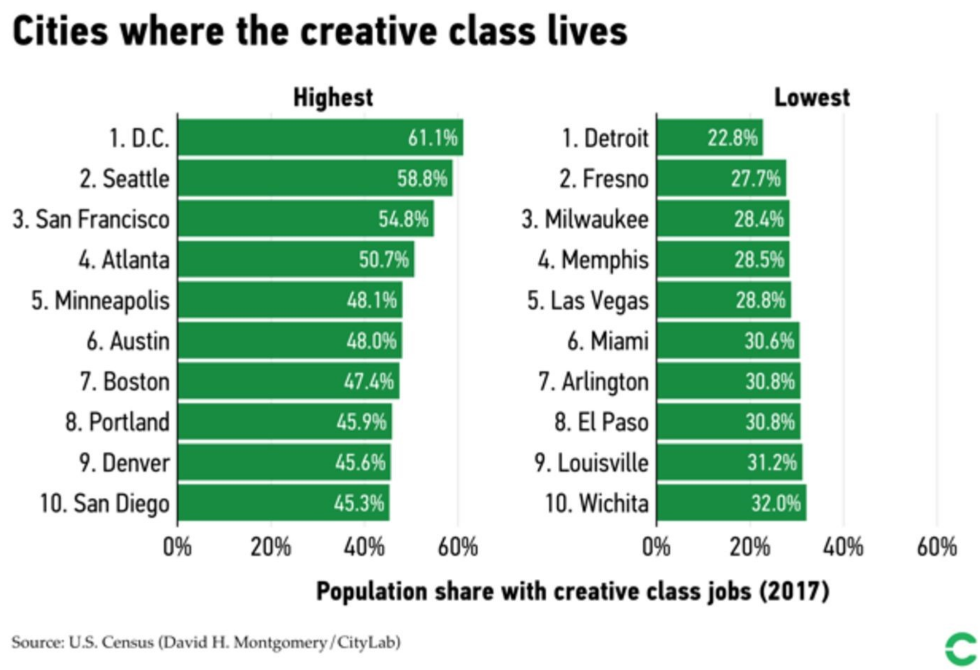
Nationally, Nevada is consistently ranked in the bottom ten states of educational attainment. Despite this abysmal statistic that hinders economic development as a whole, the educational attainment comparison between the northern and southern regions is not significantly different and would not have likely been a deciding factor in Tesla's decision of where to locate within the state. With regards to the territorial asset of entertainment, the world class entertainment amenities available in Las Vegas are unmatched by Northern Nevada or the rest of the world for that matter.

Entertainment

One fundamental question is whether Nevada missed their opportunity to leverage Las Vegas as the entertainment capital of the world. For Florida, one repeating and defining characteristic of a region's ability to attract a creative class is viewed by his assertion that the creative class looks for a city to be "a center for experience, lifestyle, amenities and entertainment" (Florida, 2003, p. 16). This suggests that Nevada's efforts to push economic activity to the North failed to take advantage of the significant entertainment and amenities offerings in Southern Nevada. This was evidenced when it was reported that Tesla's Elon Musk was actually camping out on the Gigafactory roof so as he said "because it was less time than driving to a hotel room in Reno" (Clifford, 2018). Government missed the mark when the creative class is forced to navel gaze at night on the top of their multibillion-dollar taxpayer funded factory. According to Florida, researchers need to "understand the city as an arena for consumption, for entertainment, and for amenities- a city that competes for people as well as for firms, a city of symbols and experiences, a city at night- is a huge research opportunity for sociology, geography and related disciplines" (Florida, 2003, p. 16).

Another issue is whether the rich and seemingly endless entertainment options offered by Las Vegas are so dramatic that they discourage the creative class. As one of the world's premier entertainment destinations, many visitors seem surprised that people live in Las Vegas much less work anywhere other than the strip.

Figure 5.7: Cities where the Creative Class Lives



Florida, R. (2019, August, 27). The Changing Geography of America's Creative Class. Boomberg.com: Bloomberg Citylab, Retrieved from https://www.bloomberg.com /news/articles/2019-08-27/the-changing-geography-of-america-s-creative-class

However, the data suggests the creative class understands people live in Las Vegas and the size of the creative class in the region is growing beginning to outpace other metro regions (see Figure 5.7). With one of the lowest population shares of creative class, there is much improvement to be made. The metro region should be seen as an asset that can be leveraged for current economic development projects and strategically expanded to attract future opportunities. The emerging and growing creative class in Southern Nevada provides an opportunity for policymakers to structure policies around attracting the creative class to further Nevada's policy goals of diversification. Through the lens of the creative class theory, policymakers can become aware of the uniqueness of the Las Vegas Strip as a territorial asset and an important foundation of economic development that can act as a successful multiplier of state investments in economic development.

Diversity (Creating class drivers)

For Florida, diversity is accounted for in his "tolerance" factor. Tolerance is measured by the percentage of population that is foreign, percentage of gay and lesbian population, percentage of nonwhite and nonblack, and percentage of interracial marriages, and more (Florida, 2014). As the largest county in Southern Nevada, Clark County has a minority-majority population, is the most diverse county in Nevada, and is one of the more diverse counties in the country (see Table 5.4).

Table 5.4: Population Estimates Clark, Storey and Washoe County- Race

Region		White	Hispanic or Latino	Black	Asian	American Indian	Native Hawaiian and Other Pacific Island
Souther Nevada							
	Clark County	41.7%	31.6%	13.1%	10.4%	1.2%	0.9%
Norther Nevada							
	Storey County	83.6%	8.0%	1.7%	2.4%	1.9%	0.5%
	Washoe County	62.3%	25.0%	2.8%	5.8%	2.2%	0.7%

Source: Unites States Census Bureau (2020). Quick Facts: Clark County Nevada, Storey County Nevada, Washoe County Nevada. Retrieved from https://www.census.gov/quickfacts/clarkcountynevada; https://www.census.gov/quickfacts/storeycountynevada; https://www.census.gov/quickfacts/washoecountynevada

Tesla is located in Storey County, one of the least diverse counties in the state. Although, Tesla located in the decidedly less diverse Norther Nevada, the legislative record provides many examples of legislators expressing their support for diversity. Notably, the record reflects the value of diversity consistently expressed by legislators from Southern Nevada. Senator Ford stated his support for Tesla due to the company's "strong commitment to diversification and diversity" (Nevada Senate, 2014, p. 30). Senator Ford also pressed the Governor's office on the types of "diversity programs" Tesla has and how they would work on diversity with higher education in Nevada (Nevada Senate, 2014, p. 31). The importance of tolerance and the significance of this value was present in session and is a value of the majority of the legislature, yet the value was not connected as a territorial economic driver as emphasized in the creative class theory.

Applying Path Dependency, the New and Old Path

The 28th Special Session firmly established Nevada on its historic smokestack chasing path. Influenced by history and restrained by institutional preferences, the policy emerging from the special session reinforced the century old constitutional proclivities for supporting company-based policy structures. The 21st century manifestation embodied in the 28th Special Session is similar to the state's past, and also become a new mile marker for orientating the state's future policy on a path of relying on company-based incentives for future economic development opportunities. Subsequent special sessions have followed the new, yet old, path established in the 28th Special Session. With only a few differences, the 29th (2015) Special Session to provide economic incentives for a prospective car manufacturing plant followed the formula laid out in the precedent setting 28th Special Session of using company-based incentives.

The 29th Special Session of the Nevada Legislature

The 29th (2015) Special Session was designed to follow the same path as the previous 28th Special Session. On Thursday December 11, 2015 Governor Sandoval announced that Faraday Future, a California-based electric car start-up, had chosen Southern Nevada to locate its production facility following a competitive national bidding war. To secure the 3 million square foot facility and its promised 13,000 Nevada jobs and $85 billion in economic impact, there would need to be a Special Session of the Nevada Legislature. Similar to the Tesla session, Governor Sandoval announced the session on a Thursday and issued a proclamation the following Tuesday to convene the session the next day. Following the press announcement, the Governor's office released an economic impact analysis compiled by Applied Economics assessing the proposed abatements and impacts of the project (GOED, 2015). The language of the four bills was released shortly before debate began, designed to follow the approach of the quick timeline and result of the previous special session for Tesla the year before. The “new path” created a recipe to quickly announce the thrilling victory in a national competitive bidding war, immediately schedule a special legislative session, and quickly get company-based incentives packages passed and signed into law.

The Assimilation of Two Paths

The events surrounding the special session presented a challenge to the historical predisposition of the path-dependent smokestack chasing northern centric power dynamics and how it manifested within the “new path” of special sessions for awarding economic development incentives outlined above. The large spaces of undeveloped desert in Nevada provide the perfect location for massive industrial parks unique to the entire Southwest region of the country. This provides economic development opportunities for Nevada; however, the 107,000-acre industrial park in Northern Nevada and the competing 18,000-acre industrial park in Southern Nevada expose the historic regional tensions. Since the creation of the state’s economic development tools, the majority of the awarded abatements, as demonstrated in Tables 5.4 and 5.5 above, have been provided to lure companies to the industrial park in Northern Nevada. Learning from the experiences of working with Tesla only to have them later persuaded to locate to Northern Nevada, the Southern Nevada municipality of North Las Vegas decided to go out and seek economic development opportunities on their own and not turn them over to the state for abatement discussions until the company was firmly committed to locating in Southern Nevada (Morell, 2015). This aggressive Southern Nevada approach to economic development threatened the state's power dynamic, and the designs to have another quick special session were undermined when attempts to stop this aggressive approach were imbedded within the legislation.

The first attempt to slow down the competition between the dueling industrial parks was to take away North Las Vegas' ability to control water. Some credit Mark Twain with saying, "whiskey is for drinking and water is for fighting over." Whether the famed Nevada miner turned beloved writer said it or not, in the arid desert, and particularly within the legislative building during the 29th Special Session, it rung true. For the first time in Nevada history, the Governor proposed taking away the water purveyor rights of an incorporated city in SB 2 and giving them to another government entity (S.B. 2, 2015). This unprecedented action would have significantly impacted the city's ability to quietly pursue future economic development opportunities and eliminate some of the competitive advantage the city had painstakingly developed.[19] The city could no longer guarantee water to prospective companies without first going to outside agencies for a basic municipal service. SB 2 put North Las Vegas in a difficult position of petitioning the legislature for help while at the same time working to amend the bills proposed by the Governor and deviating from the path established in the previous special session. The city secured some changes to the bill draft request for SB 2 prior to introduction, but had to return to the legislature in the 2017 Regular Session to completely reverse the bill's

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[19] The city was on the verge of bankruptcy when Mayor John Lee was elected in 2013. Facing a $156 million budget deficit, the mayor and his team quickly reevaluated city permitting process, deconstructed all building processes and developed a system where businesses could quickly build and expand. Permitting processes that took 6 months were changed to over-the-counter processes taking only minutes, making the city one of the quickest and easiest cities for businesses looking to locate. The city also developed a very seamless permitting process where internal "red carpet" taskforces were established to work with prospective businesses to identify all their building needs and put together development timelines significantly faster than any other jurisdiction in the country. This process was a key driver in the city's successful efforts to attract business.

language and original intent to create competitive advantages for the industrial park in Norther Nevada (A.B. 79, 2017).

Similarly, the legislature attempted to continue the historically unequal revenue treatment of southern enterprise. The historical constitutional protections against taxing the northern industry of mining, and the onerous legislative taxes levied on the southern industries of entertainment and gaming disproportionally placed the state's tax burden on Southern Nevada. Following this same model, the incentive package put together for the electric car company (Faraday Future) looking to locate in Southern Nevada was decidedly different than what was passed for the electric car company (Tesla) that located in Northern Nevada the previous year. During the 29th Special Session S.B. 1 contained a small provision that required the local government where the project was located to be on the hook for delinquent bonding payments (SB 1, 2015, sec 28(4)) first before the state's general fund would be obligated. A similar requirement was not made of the local governments located in Northern Nevada the year before, but demonstrates the continuation of the historical difference in treatment of enterprise depending on where it is located in Nevada.

The votes on final passage of the incentive package legislation were a further departure from the 28th Special Session for Tesla the year before. As described above, the unamended legislation in the 28th Special Session for Tesla unanimously sailed through the southern controlled legislature in just a few hours. Fast forward fifteen months, and the legislative package to provide similar incentives for a Southern Nevada company lasted four days and required several amendments during acrimonious debate. Possibly the most telling difference were the final votes; unlike the unanimous votes one year prior, the incentive package for Southern Nevada's electric car manufacture was opposed by one Senator and four members of the assembly- all but one of them were representatives elected from the north. Although these incentives were eventually withdrawn by the state when the struggling automaker moved their operations to California, the different treatment of the two similar projects conforms to historically different regional treatment in Nevada.

Summary

The case study of Nevada provides several examples of how historical institutionalism impacts future decisions and aligns the institutions (both rules and systems) on a path that is difficult to get off. Not only do the reinforcing mechanisms keep the institutions bound to a path, but unsuspecting policymakers are being guided and contained by these latent guard rails. Nevada demonstrates how its geographic and smokestack chasing history remains interdependent with its current identity and policy preferences. The incentive package provided to Tesla during the 28th Special Session relied almost exclusively on company-based incentives and was steered to the preferred northern region of the state.

Contrary to the creative class theory, policymakers in Nevada doubled down on smokestack chasing without leveraging and taking advantage of the successful creative class factors within the state. While the creative class theory framework could have better informed policymakers, the short amount of time provided for consideration of the incentive package did not allow a robust debate or discussion on how to best maximize a return on the state's investment in Tesla. One year later, the next special session to consider economic incentives for an electric car company for Southern Nevada followed the new path of using almost exclusively company-based incentives to attract the company. Although the new path is really just a segment entirely consistent with the path previously established in the constitution, the 28th Special Session further entrenches Nevada policymaking around a smokestack chasing model of relying company-based incentives.

CHAPTER 6: COMPARATIVE STUDY FINDINGS, BRAZIL, TENNESSEE, AND VIRGINIA

Overview

This chapter compares the case study of Nevada with historical economic diversification efforts in Brazil and Tennessee and the contemporary diversification efforts in Virginia. Brazil and Tennessee provide parallel experiences of governments engaged in smokestack chasing to improve their local economies and bring jobs to their residents by using company-based incentives to attract enterprise. Historically, Virginia has a policy tradition of making more substantial investments in people, and this policy preference can be seen embedded in the proposal as well as the incentives Virginia extended to bring Amazon's new headquarters to the state. Additionally, this chapter compares the company-based historical traditions in Tennessee with the case study of Nevada. The chapter uses content analysis to compare the press releases from the governors of Nevada and Virginia announcing their respective projects and to compare the industry treatment of the two projects from Site Selection Magazine.

Lessons from Brazil

There are important lessons to be learned from Brazil's efforts in the 1950s and 1960s to create an automotive industry through the use of incentive structures to attract automakers. Similar to other countries around the globe, the post-WWII period in Brazil was a transitional period where the traditional agrarian and export-oriented economy began to be replaced with an industrial and urbanized society. "The central government would emerge as the only political player capable of formulating and enacting new strategies" to successfully navigate this transition and capable of providing the leadership necessary to coordinate the process (Ioris & Ioris, 2013, p. 414). The state-sponsored company-based incentive plan initiated in 1965 saw gradual success in exporting Brazilian-made auto parts and components which influenced policymakers to aggressively seek opportunities to build and export finished vehicles.

Brazilian President Vargas and his administration believed the state needed to create state-owned companies to accomplish the goals of industrialization. Vargas promised fast-paced industrialization through robust government intervention to create manufacturing jobs while his political opponents believed Brazil needed to lower import tariffs to attract private foreign investors (Ioris & Ioris, 2013, p. 419). Ultimately, attracting private investors won the day and the state focused on creating a winning environment to attract private sector partners to help facilitate the national goals of industrialization. Unlike Nevada and Virginia, Brazil had a statewide approach to their goal of fast-paced industrialization but lacked an overall state strategy to facilitate economic planning to guide their efforts in transitioning away from their traditional agrarian society (Ioris & Ioris, 2013, p. 411). The decentralized approach failed to weigh the needs of the vastly different parts of Brazil and did not strategically align targeted industries to maximize ROI- very similar to what Nevada experienced. Brazil's 'plan' was to stop supplying just raw materials and to pursue the need to industrialize.

Winning the Soccer World Cup for the first time in 1958 launched Brazil into the international spotlight, and the government was "quick to cunningly exploit the symbolism of the social and economic transformations taking place in the urban and rural landscape" (Ioris & Ioris, 2013, p. 412). Brazil's media blitz highlighted the budding industrialization within some smaller areas of the country, but it ignored the long legacy of underdevelopment facing the vast majority of its citizens. Unfortunately, their efforts at economic development paralleled their media campaign by promoting industrial growth and urban regeneration that was “restricted to a minority of the population” and focused primarily on wealthier parts of the larger cities located in the Southeast Region (Ioris & Ioris, 2013, p. 412). Brazil focused almost exclusively on company-based incentives. They believed the Federal government should not attend to the basic social needs of their citizens and that government’s promotion of economic development would result in providing for the public- going so far as manipulating inflation to create a better environment for economic development. This resulted in further exacerbating the inequalities between the city and the countryside and decreased the quality of life for the majority of their citizens (Ioris & Ioris, 2013, p. 421).

Initially, Brazil was not focused on building an export-based growth model, but focused on leveraging the existing lucrative and rapidly growing Brazilian auto consumption market (Shapiro 1989, p. 2). While campaigning for the Presidency, Juscelino Kubitschek was introduced to Admiral Lucio Meira who suggested automobiles be added to the state industrialization agenda Kubitschek was promoting in his campaign. While campaigning later that same day, Kubitschek decided to test the intriguing idea during a political rally and announced his goal to build a national automobile. The response was overwhelming positive and the idea of a national automobile quickly became central to his winning bid for the presidency (Shapiro, 1989, p. 60). By restricting imports, Brazil used financial incentives and their lucrative market to attract foreign capital and technology investments from automotive companies.

Brazil provided a unique set of incentives to lure the auto manufactures. The state relied heavily on import and export tools as incentives. Since the executive lacked substantial budgetary powers, Brazil used indirect incentives to attract the private auto manufacturers (Shapiro, 1989, p. 8). The plan largely worked, and by 1961, six years after its adoption, eleven different manufactures- including most of the major multinational firms in the industry- were producing over 145,000 vehicles a year. By 1968 that number increased to 280,000 (Shapiro, 1989, p. 2). By all appearances, the dramatic increase in production and exportation of vehicles seemed to suggest efficacy of state planning; however, "the production- and even the export- of vehicles alone is not sufficient criteria for judging the program a success" (Shapiro, 1989, p. 3) for the community in the long term.

The creating of a Brazilian automotive industry would be deemed a success if performance criteria was measured only on whether rent transfers to the private sector firms equaled the tax revenues generated from the firm. The plan was a clear success in the first five years as the amount of federal, state, and local taxes paid by the auto manufacturers exceeded the indirect subsidies they received (Shapiro, 1989, p. 273). From a business standpoint for Brazil, the partnership did not result in a loss of forfeited revenue, and the taxes collected were around the same as the costs of all subsidies; however, questions remain concerning whether there was a net gain for Brazil, and more importantly who experienced the windfall, and if the increases in tax revenues invested benefited all Brazilians. From the auto manufactures standpoint, the partnership allowed the manufacturer's entry into Brazil's market to excise profits from domestic sales within the country, as well as tapped the less expensive labor and material costs afforded within

Brazil for the manufacturing of domestic products. Within the context of an import substitution scheme the plan was a success.

The larger issue is whether the positive growth in the economy translated to social benefits for residents, and if the company-based investments lead to better outcomes for residents. Researchers Jean Dréze and Amartya Sen concluded, “Brazil represents the most extreme case of a very rapid and sustained economic growth—about 7 per cent per year over the forty years 1940–80 —and a spectacular modernization, going hand in hand with persistent poverty, endemic malnutrition, and occasional hunger. The exorbitant social and ecological price paid for this performance is even more surprising, given Brazil's extremely favourable resource and land endowment” (Dréze & Sen, 1991, p. 2). It is clear the authoritarian regimes of the 1950-1960s created a “Brazilian miracle” which resulted in the accumulation of wealth for large multinational automakers, banks, and Brazil’s existing upper-class elites at the expense of “keeping the working-class earnings at abnormally low levels and allowing for a continuous deterioration of income distributions” and dreadful social indicators (Dréze & Sen, 1991, p. 3).

One well- documented study contrasts Brazil’s eighth largest economy in the world with its social indicators that are comparable to those of poor Asian and African countries with significantly worse economic indicators (Jaguaribe *et al*., 1986). Overall, Brazil’s investment in economic development through the auto industry did not result in positive changes of key social indicators of unemployment, poverty, income distribution, wages, purchasing power, malnutrition and hunger, life expectancy, and basic public services.

Brazil stands as a reminder to policymakers that “some kinds of 10-12 per cent growth per annum can lead to an increase in poverty rather than to its eradication” (Kurien

1978, pp. 15-16) when rapid growth and industrialization aligns with the interests of the upper class.[20] Brazil's growth and fast-paced industrialization of the 1950-60s "came to represent an authoritarian and inflexible urbanism" which gave way to the dictatorships of the 1970s (Williams, 2005, p. 120). Brazil had to overcome its lack of an industrial base, inadequate trained workforce, and lack of established supply chains to build its auto industry. While Brazil was extremely successful chasing and attracting foreign investment resulting in robust job creation for citizens, in the end the real winners were the automakers.

Lessons from Tennessee

> *More and more it looks like GM came to this rural area of Tennessee looking for a colony to exploit instead of a community to respect … The Volunteer State better start volunteering more citizens and governmental oversight and get the free-loading GM off welfare.*
>
> \- *Ralph Nader*

The preliminary interactions and policymaking surrounding General Motors' decision to locate to Tennessee parallel many of the facts surrounding Tesla's move to Northern Nevada. Policymakers in Tennessee could have somewhat predicted the eventual outcome and dangers of negotiating with large sophisticated multinational firms by understanding Brazil's earlier experiences with the auto industry, while policymakers in Nevada could have drawn from the experiences of both Brazil and Tennessee.

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[20] In 2011, Brazilian politicians took a page out of their history when they used subsidies and the threat of continued high tariffs on imports (similar to what they did to the multinational auto manufacturers in the 1950s) to persuade technology companies (including Foxconn and Apple) to start producing smartphones and computers in a factory north of São Paulo in Jundiai.

In 1985, GM announced its intention of building a $3.5 billion investment creating over 6000 manufacturing jobs. Following GM's historic announcement, exuberant politicians across the nation began clamoring to attract the economic opportunity for their residents. Ultimately, GM selected Tennessee for their new home and Governor Lamar Alexander, eyeing a bigger presence in national politics, took out full page newspaper ads around the county heralding the Volunteer State's victory. These actions were understandable considering the highly competitive, and widely publicized competition for what was considered the largest one-time investment in U.S. history (Gaventa et al., 1990, p. 176). On the surface, the $3.5 billion dollar investment promising 6,000 manufacturing jobs appeared to accomplish the state's three goals of providing jobs for locals, improving the tax base, and increasing the quality of life for locals (Gaventa *et al.*, 1990, p. 176). History shows that what followed actually mirrored the experiences of the "winners" of other large economic development competitions.

GM's surprise selection was no accident. Other states competing for GM's Saturn plant offered considerably more lucrative packages (Gaventa et al., 1990, p. 176); however, Tennessee had one thing these larger states with more manufacturing experience did not have- an exploitable region inexperienced in high stakes negotiations. The national competition set off a highly publicized bidding war between states determined to win:

> Kentucky's legislature passed a $306 million education package when it learned that GM considered its education system inferior. New York's state legislature passed a bill to give Saturn 100 megawatts of free hydroelectric power for twenty years—a billion-dollar savings. Michigan offered substantial incentives to remain the center of the auto industry: $250 million in aid over ten years, $250 million in local tax property relief over twelve years, $65 million in job training, $35 million in training for suppliers' employees, a health and a day-care center, and an ombudsman to cut red tape. Michigan's governor promised to "beat any offer."

> Minnesota's inducements were worth at least $1.2 billion. Included were a thirty-year tax holiday, free child care for imported workers, and relocation monies and subsidized mortgages for top management (Gaventa et al., 1990, pp. 177-178).

Ultimately, the well-publicized efforts of the thirty-eight state bidding war resulted in three specific benefits for GM; first, the intense competition drove up the price of the incentives; second, it took time for the states to react to each other's public offerings as they one upped each other, creating an incentive for GM to take their time as millions of dollars in free national media covering the intense bidding war provided the perfect platform for advertising their future product which had not even been designed yet; finally, the media frenzy of the suitors provided an overwhelming advantage for GM's future negotiations with elected officials who would be under intense pressure to not lose or mess up the once in a lifetime deal everybody wanted.

The media frenzy created a heightened sense of urgency and need to succeed. Those who have ever perused a car dealership lot, taken a test drive, and sat across the table from a commission motivated salesperson would not likely be surprised at the sophistication and mastery of pressure tactics at the highest level of the auto industry. Tennessee offered the "usual benevolence to large corporations" (Gaventa et al., 1990, p. 181) by not only providing a lucrative incentive package at the state level, but also by steering Saturn to choose a county with the lowest property taxes, Maury County. In turn, "Saturn then hammered Maury County officials into an unprecedented forty-year in-lieu-of-tax agreement" (Gaventa et al., 1990, p. 181). GM benefited from the pressure local officials faced in getting the time sensitive deal done, and Maury County budget director said the "greatest urgency came from state officials, who wanted an agreement to be reached but refrained from offering much assistance" (Gaventa et al., 1990, p. 182).

Similar to the events in Brazil, the outmatched and overwhelmed local government was constructively forced to negotiate with an experienced, sophisticated, and multinational corporation employing more lawyers than the number of residents living in the county.

GM recognized the pro-business environment Tennessee promoted for small businesses as a lucrative and exploitable opportunity. Tennessee officials failed to understand how their right-to-work state promoting a pro-business climate with minimal regulations presented itself as an inviting henhouse for Wall Street wolfs. Similar to Nevada and Brazil, Tennessee failed to recognize how their pro-business climate was readily exploitable by multinational corporations who could scale the advantages beyond original legislative intent to promote small business. Tennessee and Nevada offer some of the lowest taxes in the nation, which unsurprisingly means "Tennessee's state government expenditures per capita and school revenue are among the lowest in the nation" (Gaventa et al., 1990, p. 181; Holzauer, 2021). For big business, Tennessee being at the bottom nationally for statutory protection for workers from maximum benefits for disability to unemployment was an unspoken selling point (Gaventa et al., 1990, p. 178) as well as the favorable tax climate shifting tax burden away from business (Urban-Brookings Tax Policy Center, 2017).

The impact of attracting the new firm to the sleepy Tennessee farming community was significant. The town transformed in the first few years from a community where a double-wide trailer parked next to the elementary school served as its town hall (Gaventa *et al.*, 1990, p. 177) and from a "two-traffic-light, two-police-officer village of 800 residents, into a bustling community of 12,000 with six traffic signals, two national chain supermarkets, a pair of McDonald's restaurants and a police department of 21 officers"

(Paul, 2002). The lure of thousands of jobs and economic development softened some of the pains of explosive growth. However, the promise of thousands of jobs did not exactly pan out, despite local taxpayers footing the bill and enduring the growing pains as their community changed. Not many new jobs went to locals. Out of the 6,829 Saturn jobs, only 600 went to local residents- and even these 600 jobs were thought to be actually "held by commuters who travel I-65 from as far away as Kentucky and Alabama" (Paul, 2002).

More Lessons from Tennessee

GM has had a tumultuous tenure in Spring Hill. In 1990, the first vehicle rolled of the assembly line where manufacturing continued until 2007 before it abruptly stopped. Considering the majority of the state and federal tax incentives had expired, GM contemplated idling or shutting down the plant; however, the state of Tennessee came back to the table with more incentives to lure GM to produce the new Chevrolet Traverse (American Machinist, 2010). This new round of state taxpayer incentives kept the factory running until late 2009 when manufacturing of the Travers, was moved to Michigan. For nearly the next decade the Tennessee facility endured a "period of idling" as the facility faced an uncertain future (Ferris, 2019; Vlasic & Bunkley, 2011). Then in late 2020, the Tennessee State Funding Board approved a new round of $35 million in economic incentives for GM to convert Spring Hill operations into a factory to build future electric vehicles (Associated Press, 2021). The board also approved an additional $60 million to GMs joint venture partner Ultium Cells (Jones, 2021) in the state's efforts to keep their smokestack in place. This new round of state incentives prompted Tennessee Governor Bill Lee to state: "This will create generations of jobs. As we know, an investment like this in a community not only creates the jobs that are announced today, but these kinds of investments create multi-generational job growth in this state. That in itself makes it very exciting" (Jones, 2021). The history of GM in Spring Hill suggests "multi-generational" jobs will require a continual multigenerational investment by the state.

As part of the first incentive package, Tennessee had to provide Saturn infrastructure upgrades. These direct company-based investments for Saturn were necessary to connect the rural site to existing infrastructure. In September 1985, Tennessee announced plans to build a $29.3 million five-mile road, State Route 396, to connect the plant to Interstate 65 (Sherman, 1994, p. 320).[21] The infrastructure incentives tied to Saturn followed the same pressure tactics of "if we don't build we will lose" as the other incentives; in his 1986 State of the State address, Governor Alexander warned the legislature that a failure to pass the roads package would result in losing the Saturn suppliers who were necessary for the indirect economic development promised in GMs development in Tennessee (State of the State Address, Lamar Alexander, 1986). As discussed below, Nevada's incentive package to attract Tesla also included the construction of a road almost exclusively for Tesla to connect the company to Interstate 80. Whereas in Virginia, the inventive provided to Amazon was the addition of another metro stop for the benefit of all commuters on the extensive public subway system.

The lessons policymakers can learn from Tennessee seem apparent. While the history of smoke stack chasing from Brazil and Tennessee provide substantive warnings for policymakers, the fact remains that three decades of Tennessee's cyclical investments in GM did not appear to change how the state approached economic development-

[21] The final cost of the five-mile road came in at $37 million (Barlow, 1989), the 26% increase received very little scrutiny.

despite this experienced history. The short attention span and failure to learn from their immediate past demonstrates the difficulty policymakers face when competing for the promised jobs of economic development. The often-quoted proverb from Homer's Iliad[22] "Fool me once, shame on me, fool me twice shame on you" leaves to the imagination what follows after being fooled three times. Maybe only a state nicknamed the Volunteer State would sign up to be fooled three times; however, other states can learn from the previous smokestack chasing experiences of Brazil and Tennessee.

Comparing Virginia's People-based Approach

The smokestack chasing of Brazil, Tennessee, and Nevada has resulted in primarily company-based incentive packages offered to attract business. Often, the lack of dedicated people-based investments in a location, as described in the creative class theory, require states to overcome these historical deficiencies by attract companies through other means, and it naturally follows that the less a state invests in its people today the more the state will have to offer in company-based incentives in the future to overcome this lack of investment. The central issue becomes whether governments should make regular invests in people to drive future economic opportunity, or should they invest in companies to induce economic opportunity?

The age-old causality dilemma is commonly presented in the philosophical "chicken-and-egg" question. Whether to pursue people- or company-based investments presents the same dilemma as scholars and government officials struggle to determine the correct drivers of economic development. Virginia's historical people-based incentive

[22] "For once deceiv'd, was his; but twice were mine" (Pope & Homer, 1992).

approach provides comparative value to this project when contrasting with the decidedly company-based investments deployed by Nevada.[23]

The competition to attract Amazon's HQ2 headquarters to Arlington Virginia provides significant comparative power and can help inform policymakers committed to attracting new enterprise into their boarders. Compared to Nevada, Virginia developed within its institutions a robust legacy of investing in its residents and the places where they live. This historical commitment to people-based investment creates a path dependency where, once again, history matters when assessing today's outcomes. Virginia's historical commitment to higher education, mass transit, healthcare, and other people-based investments are attractive to businesses and give the state an advantage when competing for economic development opportunities.

Applying Historical Institutionalism to Virginia's Incentive Package

Virginia follows the more traditional incrementalism approach where inherently stable institutions of policy subsystems develop over time. Similar to Nevada, Virginia's legislature considered real time economic incentives to close the deal to bring Amazon's headquarters; however, they were able to rely on the product of their long-term investments in their people to attract Amazon. Which means, many of these "real time investments" were actually increasing investments in the factors that attracted Amazon to the region, such as higher education, workforce training, transportation, and K-12. Unlike Nevada, Virginia's rich history of investing in Florida's three Ts of economic

[23] Often the priorities of an institution are reflected in their budgets, and by looking at their budgets you can identify their priorities. This holds true when looking at incentive packages states propose to attract businesses. When looking at the investment a state makes in economic development one could infer the priority of the state- do they value their people and invest in them over private enterprise?

development- Technology, Talent and Tolerance (2003, p. 10) not only lifts and helps their residents succeed, but also provides significant tools to attract and facilitate economic development.

Amazon clearly valued Virginia's historic people-based investment strategy toward economic development. For starters, Virginia often views their higher education system through an economic development lens. With three large flagship institutions- University of Virginia, Virginia Tech and College of William and Mary- the state is ranked second among all states in terms of average six-year graduation rates (Brown et al., 2013, p. 27). Virginia's coordinating body for higher education, the State Council of Higher Education for Virginia (SCHEV) created the Virginia Plan for Higher Education which established a very straightforward objective for the state to be the best-educated population in the nation by 2030 (State Council of Higher Education for Virginia, 2013).

With fifteen public four-year institutions; twenty-four public two-year institutions; and thirty private, nonprofit colleges and universities, Virginia directly connects the state's investment in higher education to economic impact where the state reports:

> "each dollar spent on Virginia's public higher education system in Virginia produces $21 in greater Gross State Product (GSP). And, it more than pays for itself, returning $1.92 to the state treasury" (Virginia Business Higher Education Council, 2015, p. 3).

The incentive package offered by Virginia demonstrates their commitment to people-based investments and highlights how Amazon required less direct company-based incentives when the creative class factors within the region are robust.

Virginia's Incentive Package

In May 2016, Virginia created the Go Virginia economic development plan for the state, and at the same time created an incentive structure available to attract enterprise. In other words, they created the structure and the tools that the structure could use to attract businesses at the same time. Whereas in Nevada, they created the structure in 2011, and later added inventive tools in a piecemeal fashion largely driven by firms looking to relocate or expand during legislative sessions in September 2014, December 2015, and October 2016. In other words, Nevada's tools were created to close the deal not attract the company; whereas, Virginia's historical investments in their people were what attracted the company.

Altogether, Virginia offered up to $750 million in public incentives directly to Amazon and more than $1.712 billion investment in their residents. The money went directly to Amazon in the form of workforce cash grants of a $22,000 payment to Amazon for each job created with wages over $150,000 (Arcieri, 2018). Over 70 percent of the incentive package went to an assortment of people-based investments in improvements to mass transportation, community parks, higher education, K-12, and more (Table 6.1).

Table 6.1: Summary of Grants and Incentives for Amazon

Company-Based Incentives	
Workforce cash grants for 25,000 jobs	$ 550,000,000.00
Workforce cash grants for additional 12,850 jobs	$ 200,000,000.00
Total Company-based incentives	$ 750,000,000.00
People-Based Incentives	
Infrastructure investmetns	$ 259,000,000.00
Street scapes, community parkts, open spaces	$ 28,000,000.00
Innovation Campus Virginia Tech	$ 1,000,000,000.00
Higher Education Performance based grants	$ 375,000,000.00
K-12 Tech Education and college internship at local tech	$ 50,000,000.00
Total People-based incentives	$ 1,712,000,000.00

Source: Arcieri, K. (2018, November, 13). Virginia's Amazon HQ2 win wasn't just based on traditional incentives. Here's what else was included. *Washington Business Journal.* Retrieved from https://www.bizjournals.com/washington/news/2018/11/13/virginias-win-of-amazon-hq2-wasnt-just-based-on.html

Virginia offered an incentive proposal considerably smaller than what other states offered Amazon. For example, Maryland proposed an $8.5 billion inventive proposal and New Jersey proposed $7 billion incentive proposal (McCartney, 2018). This strongly suggests that "factors such as access to talent and airports, and overall business climate, were more important for the company" (McCartney, 2018).

Applying the Creative Class Theory- New York City and Northern Virginia

Originally, when the H2Q selection was announced it was divided evenly across two headquarters in Northern Virginia and New York City (Amazon, 2018). Although the politicians in New York later retracted their proposal, it is relevant for the purposes of this project because it demonstrates the different amounts of investments each location had to make for the same 25,000 jobs, and the difference could be attributed to the value Amazon placed on the presence of creative class factors within the respective regions.

New York offered $1.525 billion in direct company-based incentives for the 25,000 jobs or a $48,000 payment to Amazon for each job created with wages over $150,000 (Amazon, 2018). In other words, for the same job, New York had to pay Amazon $48,000 and Virginia only had to pay $22,000. Additionally, New York proposed up to $480 million reimbursements for capital costs for construction of its office building and up to $900 million in relocation assistance to revitalized areas (Edwards, 2018). The stark comparison of these two deals created the political resistance that resulted in New York retracting its deal. For purposes of this project, the two proposals provide an interesting sub-comparison of two contemporary approaches to highlight the value of the historic people-based investments Virginia compared to the cost New York was going to have to pay for the same benefit when using an almost exclusive company-based incentive approach.

Regional Issues

Unlike the historical regional friction in Nevada, Virginia has greater self-awareness of their territorial assets. Virginia's economic development plan, Go Virginia, allows diverse regions to identify and define their own strengths and have the flexibility to grow their different regional economies. Virginia recognizes that regions grow and prosper along economic- not geographic- boundaries. For Virginia, the business sector, education sector, and government sector must collaborate together. Whereas in Nevada education has been an afterthought, and any education discussions that occur are driven by the business coming to Nevada concerned about the workforce readiness; the discussions are not proactively engaged in by policymakers. As described above, when Tesla first visited Nevada, the company explored sites in the Las Vegas area, and once the state government got involved, they were steered to northern Nevada contrary to the kind of economic development and city building advanced by Richard Florida (2003) and Edward Glaeser (2012). Whereas in Virginia, Amazon located their new headquarters right in the heart of the metropolitan region of 6.2 million people taking advantage of all the qualities Gaeser and Florida conclude a city offers in robust economic development.

Geography did not play the same role in Virginia as it did in Nevada. Despite Tesla coming to Southern Nevada first, when the state submitted their proposal to Tesla for consideration, the state went all in and only submitted the Northern Nevada site, because the state viewed it as the more suitable site for meeting Tesla's timelines. The industrial location options in Southern Nevada lacked critical infrastructure and would have required more of a creative solution and open-minded partnership from Tesla. However, Nevada did not give Tesla the opportunity to explore another option in the state. In Virginia, the state submitted three "world class proposals- one each for Richmond, Hampton Roads and Northern Virginia" in what the state said was a "very intense effort on the front end" (Starner, 2019). Virginia did not have a political history of geographical tensions like in Nevada driving the decision-making process.

Content Analysis

Content analysis was first defined by Bernard Berelson as "a research technique for the objective, systematic and quantitative description of the manifest content of communication" (1952, p. 18). In his seminal book on the subject, Berelson takes a highly quantitative approach in his textbook on communication research techniques thereby coding communication data to convert to a purely quantitative analysis. Only a few months after Berelson's breakthrough, German Siegfried Kracauer argued that "overemphasis on quantification tends to lessen the accuracy of analysis" (Kracauer, 1952, p. 631). Kracauer further argues that when scientists rely on coding on the basis of graded scales, they proport to use their findings as quantitative analysis which ignores that the determination for coding on a scale "still involves qualitative considerations" to be made during the analysis (1952, p. 632).

The use of content analysis in the project aligns with Kracauer's assertion that given "qualitative appraisals play a larger role in interpretation anyways, there is no reason why such cumbersome quantitative techniques should be preferred to qualitative" (1952, p. 633). Kraucauer "argued for the importance of including latent structures of meaning into the analysis, and he pointed out that the single occurrence of a phenomenon in a given text can also be meaningful" (Schreier et al., 2019, p. 1). One advantage of content analysis is that the content being analyzed remains in text and should errors occur the researcher can return to the texts to correct which provides greater accuracy than survey or experimental research (Woodrum, 1984, p. 6). For this reason, Babbie (1975, p. 234) and others conclude that content analysis is an unusually safe methodology

Content analysis also provides a good balance for this project's reliance on interviews for qualitative analysis. "Content analysis has the advantage of facilitating empirical study without disrupting the research subjects" (Woodrum, 1984, p. 6). Additionally, the content analysis for this project was initially done in preparation for the interviews which helped inform the construction of the interview questions.

Woodrum concludes that one major advantage of qualitative content analysis is in "forcing researchers to specify category criteria and assess their success in measuring qualitative phenomena" (1984, p. 6). This exercise reduces content ambiguity and by "forcing the researcher to go beyond impressionistic generalizations, and assess his or her efforts through reliability and validity check, one generates a replicable, empirical data base for hypothesis testing and similar objectives" (Woodrum, 1984, p. 6). As is the case with the content analysis of this project, content analysis required the researcher to generate categories and criteria for measuring the qualitative phenomena.

Given the nature of this project, the traditional coding of the quantitative content analysis will be replaced with a more qualitative content analysis methodology. The limited content analysis of this project leans on the importance of words and how their variance is seen in the governors announcement from both Nevada and Virginia, the initial press release from Amazon concerning locating to Virginia and the initial press release from Tesla concerning locating in Nevada, economic impact analysis prepared by the governor's office for respective legislatures in both states, and the articles from Site Selection Magazine announcing the selection of each state. Additionally, this project will use content analysis to directly compare the two economic incentive packages to quantitatively identify the investment each state made in people and the investment each state made in place.

Press Release from Tesla and Amazon

The press releases from the two companies shed some light on what attracted the company to the respective state. While these press releases came from the individual company, they were clearly coordinated with the Governor's offices of the respective states. For example, in Nevada, Tesla's short press release served as the primary press release while in Virginia both the Governor and Amazon issued a press release. Although they largely mirror each other; understandably, Virginia focuses on the Virginia portion of Amazon's announcement.

Nevada

The press release announcing Tesla's choice to come to Nevada is significantly different from the press release issued by Virginia. Tesla and the Nevada Governor's office jointly issued the 252-word press release highlighting the economic impact of the factory (Tesla, 2014). One glaring omission from the press release is the mention of 'jobs' (Tesla, 2014). As the national leader in unemployment in the years leading up to the 2014 announcement, it is surprising the press release did not mention jobs.[24] The succinct press release also did not mention anything about incentives or the nature of the incentives. The closest thing to mentioning incentives was in the quote from Nevada Speaker of the Assembly Marilyn Kirkpatrick saying she "looked forward to receiving the necessary information so the legislature can meet and *take the necessary action* to support this major industry" (Tesla, 2014, emphasis added). The joint press release focused almost exclusively on the corporate interests of Tesla; the focus of the press release was the regulatory ability of Nevada to facilitate the rapid construction of a factory to guarantee Tesla's production timelines. The contents of the press release were better suited for a shareholder earnings call than an announcement informing ratepayers how their taxes were going to be invested for their benefit.

[24] Nevada had a 7.3 percent unemployment rate, higher than the 5.9 percent nationally in September 2014.

Virginia

Virginia Governor Northam's office took a significantly different approach on their press release. First, the Governor issued his own press release independent of Amazon; however, it is worth noting the press releases issued at around the same time were coordinated and contained very similar content. The press release from Virginia consisted of less than two thousand words (1,993 words to be precise) and provided a detailed summary of the incentive package being offered and the opportunity Amazon would provide the commonwealth. The press release mentioned jobs in large font in the subtitle of the press release. Jobs were also discussed in the document's first paragraph and eleven additional times throughout the document (Virginia Governor Ralph Northam, 2018). In fact, the press release from Virginia used 354 words to discuss jobs, which was 100 more words than the entire length of Nevada's 252-word press release (Tesla, 2014; Virginia Governor Ralph Northam, 2018). This clear distinction between the press releases is even more stark when considering Virginia's unemployment rate at the time of the press release was 2.7 percent, putting it well below the national rate of 3.5 percent (Virginia Employment Commission, 2018).

The press release from Virginia also emphasized the incentives as people-based. By framing the deal as a partnership proposal with Amazon to make investments in education, transportation, and workforce, the press release leaves little doubt as to the state's intent. The announcement also highlights the "strategic" people based investments the state has made to attract opportunities like Amazon, and highlighted how through careful planning the presence of the region's creative class makes it "one of the most vibrant, civically engage communities in the world" adding that the choice by Amazon highlights the "collective strengths of our communities- our workforce, education system, infrastructure, and unparalleled quality of life" (Virginia Governor Ralph Northam, 2018).

The announcement also highlighted the challenges the opportunity created. The strain the new headquarters will put on the community was also addressed in the press release by discussing how the incentive package makes investments in transportation, affordable housing, and K-12. From the first announcement of their project, Virginia, unlike Nevada, anticipates the negative consequences of the economic development opportunity and structures an incentive package around those realities. By focusing on the people not just the company, Virginia was able to anticipate the community impacts; whereas, in Nevada the focus was on the company, the size of its building, and how the state would make sure the company's production schedule was met. Not only does the Governor of Nevada ignore consequences of the project in the press release, during the 28th Special Session there is no discussion in either the Senate or Assembly of affordable housing and the negative community strains and impacts a project will have. It is worth noting that six years after Tesla moved to Northern Nevada, Reno is facing an extreme affordable housing crisis and is ranked as one of the least affordable cities in the country (Hidalgo & Jason, 2021).

Site Selection Magazine

Site Selection Magazine, differentiates between "must" and "want" criteria for business relocation (Spicer & King, 1996). "Must" criteria are essential factors that would disqualify a location if they were not available. These could include a minimum site size, access to rail lines or a major airport, availability of water and natural gas, or other requirements. "Want" criteria are location factors that are desirable, but the lack of which could be compensated for by strengths in other areas. Tax incentives and other government economic development policies fall into this category, along with such factors as labor quality, operating costs, competitor locations, and distance to suppliers" (Turner 2003, pp. 273-274). For purposes of this project, the content analysis of the two announcements from Site Selection Magazine focuses on the textual differences between the tone and the emphasis the article places on people- vs company-based incentives.

Virginia

The importance Virginia and Amazon placed on people-based incentives is clear from the article announcing Amazon's decision to locate in Virginia. First, the article points out that Virginia understood they would 'lose' if they focused only on company-based incentives and submitted a proposal where "more than 70 percent of our commitment was an investment in public assets like higher education and transportation infrastructure" (Starner, 2019). The article also emphasizes how Virginia's proposal aligned with Amazon's interests in describing how after the three sites Virginia submitted were selected as three of the 20 finalists, the Amazon team came to Virginia to "learn more about the sites, our colleges, and our K-12 system" (Starner, 2019). The article emphasized Amazon's focus on "talent," stating Amazon wanted "access to a deep and talented pool of tech and headquarters professionals in a thriving urban environment" and discussed other creative class theory factors such as a variety of hotels, restaurants, abundant parks, and open spaces with sports and cultural events (Starner, 2019). The article clearly outlines a people-based incentive approach offered by Virginia that was also sought by Amazon.

Nevada

In stark contrast, the Site Selection article announcing Tesla's selection of Nevada focuses on the size of the factory and the jobs the project will create. The article points out that the incentives are "mostly in the form of tax abatements" with over "80 percent of the total of [the Tesla] deal seems to come from property and sales tax incentives" (Rasmussen, 2014). The article quotes Tesla CEO Musk as stating that it was not just about incentives, but a state that was "a get things done state." He had high confidence the factory would be constructed on time to meet their production timeline which Musk credited as "truly the most important thing, and, of course, whether we can operate the factory cost-effectively so the car itself would be affordable" (Rasmussen, 2014). Once again, similar to the tenor of the earlier joint press release, Musk's comments are directed at shareholders and Wall Street. While the article points out the very important performance-based protection aspect of the incentive package that Governor Sandoval and GOED Chief Hill negotiated into the deal, their article makes clear that the announcement of the Nevada's victory was due to the company-based incentives in their package aligning with Tesla's profit driven focus.

Nevada and Tennessee

Similar to Tennessee officials, Nevada officials failed to understand the vulnerability of their right-to-work state, with no personal income tax, low corporate tax, and pro-business climate with minimal regulations. For corporations, these perceived strengths provided a very promising and exploitable opportunity. Institutions legislatively designed to promote small business were not created to be dramatically scaled up to accommodate large enterprise. However, Nevada's institutions do accommodate large sophisticated multinational firms within the narrow gaming and hospitality industry through world renowned gaming boards, regulations and legal structures. Outside of gaming, Nevada is easily exploitable as evidenced with its historic dealings with the mining industry.

Similar to Tennessee, Nevada did not have experience negotiation in high stakes negotiations. The institutions themselves not only lacked the experience, but the newly created Governor's office of economic development was untested, unproven and not structured or staffed for such high stakes negotiations. The finalists for Tesla were California, Texas, Arizona, and compared to those more populous states, Nevada has significantly smaller state political institutions with some of the smallest bureaucratic staffs in the nation.

Summary

The comparative inquiry of Brazil, Tennessee and Virginia provides more data points to analyze the research questions in this project and help inform policymakers working to attract economic development of policy options and investment strategies to attracting new enterprise. Unfortunately, the pattern of smokestack chasing experienced in Brazil is continually repeated by credit seeking and or uninformed policymakers believing their situation is somehow different and will yield different results.

While it would be somewhat understandable and possibly even excusable for Tennesseans to not know about what happened decades earlier and over 4,000 miles away, it is disconcerting- to say the least- to explain how they did not learn from their own experiences at the same factory three different times. To wit, three different governors in Tennessee have all tried the same thing expecting different results, and although we do not yet know the likely outcome of Tennessee's most recent attempt, it is reasonable to predict it will be similar to their first unsuccessful attempts to use company-based incentives to achieve successful economic development outcomes for the Volunteer State.

Virginia's people-based approach to attract Amazon is insightful when compared to this project's case study of Nevada; however, Amazon's concurrent selection of Virginia and New York also provides a unique side-by-side comparison of what a people-based vs company-based incentive package looks like. For Amazon, they were attracted to Virginia due to their creative class environment, and the people-based incentive package doubled down to further enhance and strengthen the regionally appealing environment Amazon valued. In contrast, New York had to provide a significantly larger company-based incentive package to overcome creative class environmental deficiencies in order to lure Amazon into a redevelopment zone. New York had to pay the price for its historic failures to invest in people to compete; unfortunately, its proposal would have paid that price directly to a company and not to improving their neighborhoods or region for future opportunities. Virginia's historical investments in their people created intrinsic value that attracted Amazon and was reflected in the large people-based incentive package that required a much smaller company-based investment than New York had to offer Amazon for the same number of jobs and economic impact.

The comparative content analysis in the chapter further highlights Nevada's company-based incentive structure against Virginia's people-based approach. Nevada's failure to mention anything about jobs in the press release announcing the state's largest ever economic incentive package could have simply been an unimaginable oversight;

however, it is clear the press release unmistakably focuses on the needs of the company and does not directly address the needs of the citizens who will eventually pay for the incentives. The content analysis also provides corroborating data emphasizing Virginia's keen awareness of their historic investments in building a creative class environment and the state's institutional dedication to continue building a place people and businesses want to come.

CHAPTER 7: FINDINGS OF QUANTITATIVE SEMI-STRUCTURED INTERVIEWS

Overview

The purpose of this project's semi-structured interviews and case study was to explore the factors influencing policymakers when choosing between using people- or company-based incentive to attract new companies to their region. This analysis intends to contribute to scholarship surrounding economic development by providing a qualitative analysis to guide policymakers toward better outcomes. The interviews were a significant part of the project, and although the data collected from the interviews is largely confined within this chapter, the information echoes the data and confirms the analysis and conclusions throughout this project.

Semi-structured interviews were conducted to better understand the circumstances surrounding the 28th Special Session. The confidential and voluntary semi-structured in-depth qualitative interviews were conducted with seven subject matter experts (see Table 7.1) to examine the experiences and perceptions of policymakers and stakeholders engaged in the 28th Special Session. The findings in this chapter are the results of this confidential interviews conducted to answer the research questions central to this project.

Table 7.1: Summary of Interview Participants

Category	Description	Participant Count
State Government	elected members of the Nevada Legislature, staff of Governor's office, registered lobbyists	3
City/County Officials	Individuals representing the Clark County Commission, City of Henderson and City of North Las Vegas	2
Higher Education	University of Nevada, Las Vegas academic researchers and administrative faculty	2

For the most part, the data in this chapter is presented utilizing thick description (Geertz, 1973) to use the qualitative data collected during the interviews to better describe a "clear picture of the individuals and groups in the context" of the impacts of the institutions on their decision-making (Holloway, 1997, p. 154). Using thick description, this chapter uses background information to contextualize and better understand the meaning of the data collected in the interviews and "inserts history into the experience" (Denzin, 1989, p. 83) providing valuable insight into the events of the special session as well as confirming the value of using a qualitative historical institutionalism approach central to this projects analysis. The qualitative interviews described thickly in this chapter seek to merge the participants experiences during the 28th Special Session with the researcher's interpretations of these experiences (Ponterotto, 2006).

Analysis of the Interview Data

As discussed in the case study in the previous chapter, Nevada has engaged in rent seeking since inception, and the policy choice to provide Tesla almost exclusively company-based incentives were consistent with this history. At the same time, the interviews reveal how the policy actors understood Tesla's singular focus on company-based incentives, and the pressures of the monumental opportunity decreased the thoughtfulness of the implications of the proposal to Tesla. Additionally, the interviews reinforce the conclusion that the high costs of the company-based incentives were due to deficiencies in education, healthcare, transportation, and other social services. Tesla picked Nevada because of its proposal of significant direct company-based incentives and the ability to accommodate its rapid construction timeline aligned with Tesla's primary goals.

Incentives were Critical to Tesla's Decision

All of Elon Musk's companies, including Tesla, rely heavily on government incentives and subsidies. Tesla, SolarCity Corp., and Space Exploration Technologies Corp., known as SpaceX, have benefited from an estimated $4.9 billion in government grants, tax breaks, discounted loans, environmental or transferable tax credits, and factory construction grants (Hirsch, 2015). Musk's companies had been structured around and already benefited from nearly $4 billion in government aid prior to Nevada's $1.3 billion proposal. "He definitely goes where there is government money," according to one Wall Street analyst (Hirsch, 2015). Tesla's corporate reliance on government subsidies was discussed by every interview participant.

The interview data supported the idea that company-based incentives were central to Tesla's decision of where to locate their Gigafactory. In fact, much of the interview data suggests that incentives were the only factor that mattered to Tesla. One state government official said succinctly when discussing the incentives, "Generally, without it, it would not have happened." This contention was supported by all other interview participants confirming that Tesla was only looking for company-based incentives. A researcher in higher education explained that the incentives were critical to Tesla's decision by stating:

> The legislature was involved more or less signing off on a deal that had been largely in place and negotiated before the fact. They would not have come without the incentives, that was the big thing that Nevada could offer.

Two government officials central to the negotiations stated that Tesla's CEO Elon Musk kept asking for large company-based incentives from the beginning, at one point even asking for a $500 million payment directly to Tesla. The attitude of a large company-based incentive package permeated throughout the culture of the company; one government official noted:

> At one point Musk said we will go somewhere else, but because at the end of the day his bean counters wanted something for nothing, and we said no.

These kind of pressure tactics by Tesla were something discussed by multiple interview participants and are consistent with how companies treat their smokestack chasing suitors during high stakes winner take all negotiations.

Negotiations Favored Tesla

Tesla's approach to the highly publicized, national competitive bidding war among the states, was similar to the approach of the other companies in the comparative analysis provided in this project. As one local government official stated:

> Tesla had all the cards; the real question was whether you would be lucky enough to have them pick you for their factory. They were going to build it and if you did not want to miss out you better play ball with them. Musk and his millions of Twitter followers would quickly learn if you messed up the deal of a lifetime. For Nevada, which suffers from a certain inferiority complex as only a gaming state, Tesla was an opportunity they could not miss and best not screw up, and for Tesla. The great gaming state of Nevada had become the "mark" in Tesla's card game.

One state government official described the imperious pressure Tesla exerted during the process by describing some of the negotiations as a "take it or leave it" approach:

> The first critical moment was right before Burning Man when Elon said, "I am leaving to go to New York," or something like that. And we told them, "We didn't care." He then went to Burning Man and came back and said "I am just kidding; can we redo this." I was actually on vacation when he called and he wanted me to drop everything and reengage and I said, "not happening." So, we made him wait a couple of days.

Just like in Brazil, Tennessee, Virginia, and New York- policymakers in Nevada were under intense pressure to not mess up what Nevada Governor Sandoval described as, "These 21st century pioneers, fueled with innovation and desire, are emboldened by the promise of Nevada to change the world" (Tesla, 2014). The pressure to change the world quickly shifted from exciting press conferences to the Nevada legislature. One researcher noted:

> Tesla had all the leverage; they could play Nevada off other states to get a better deal. Nevada was very hungry for a win at that point in the state's economic development trajectory. Those two dynamics created the situation that favored Tesla particularly in the negotiations for tax abatements.

This treatment of smokestack chasers is nothing new, as desperate governments are seen as a "mark" or an intended victim for hustle and manipulation ripe for a company to exploit. Tesla also saw exploitable opportunities in the Nevada's regulatory schemes.

Nevada's Favorable Regulatory Environment

Nevada's ability to get things done quickly was a significant factor in Tesla's decision to locate to the state. Similar to Brazil and Tennessee, Nevada's low regulation environment combined with local government's ability to quickly get things done appealed to Tesla. One government official engaged in the negotiations from the beginning provided the following story to give context to Tesla's early experiences in the state when the company was actively deciding between which of the final four states to locate:

> Tesla asked Storey County, "if we were to apply for a permit how quickly could we break ground and start construction." He [Storey County Commissioner Lance Gillman, and partner in the property Tesla was looking to buy] said, "here is a piece of paper, give us a $25 dollar deposit for a filing fee and you can start this afternoon." Tesla officials sort of laughed and said, "no seriously." And Storey County said, "we are being serious, we will keep up with you and need to review plans along the way but you can start right now." And that made a huge difference and Elon talked about it when we announced it, that the certainty of being able to break ground, do the construction, and do it at the speed that they could possibly do it, and not have obstacles being thrown in the way mattered a bunch.

This was similar to Brazil where the final plan to industrialize by establishing a domestic auto manufacturing industry was written in only six hours (Shapiro, 1989, p. 105).

One university researcher couched the low regulation environment within the context of Tesla being the state's first real opportunity to showcase Nevada's new approach to economic development:

> Tesla was the first big deal in the reconfigured GOED process that included ability of the office to negotiate substantial tax abatements to lure investment to the state. This was an effort initially to get Tesla to move out of California to get less regulation lower cost here in Nevada.

This statement was one of several statements made by participants recognizing the realities facing Nevada as it competes with neighboring states for the same economic development projects. For example, another local government official stated:

> In Nevada we can move things a lot faster, in California to make any upgrades and stuff they have to go through all these EIS studies and all kinds of environmental stuff that we didn't necessarily have to do in Nevada.

These statements highlight the pressure to beat neighboring states and the view that Nevada's regulatory environment is a major selling point. It is worth noting that the low regulatory environment in Nevada was discussed by most of the interview participants in response to the survey question about Nevada's strengths when attracting economic development. This exploitable "strength" was rarely seen as a liability or exploitable opportunity for enterprising companies. One university researcher engaged in the arena of economic development noticed the problem:

> Willingness and openness to deal, and the regulatory barriers are lower and tax is lower. But that comes with a price, because that means you do not have the investments in k-12 and healthcare that might get the top of the economic food chain to invest here. So, concern for Nevada is that we are growing the economy and diversifying in some degree, but the question is what part of the economic food chain are we getting here. Are we stuck in the bottom with low paying warehouse jobs and some manufacturing? Low taxes and low regulatory base is going to attract people, but the question is- whether it is going to be attracting the top or bottom of the food chain.

In referencing the "top or bottom of the food chain," the respondent acknowledges that company-based incentives will attract companies but raises the question- what kind of companies? The comparative analysis of Virginia mentioned above suggests the region's environment does attract companies. States offering company-based incentives attract enterprise singularly focused on the bottom line; conversely, states offering people-based incentives attract companies that value these investments.

Tesla and People-based Incentives

The data from the interviews confirms the importance Tesla placed on company-based incentives, and the minimal impact people-based incentives and Nevada's past investments in social programs had on their decision. When asked if the state's investment in healthcare, k-12 education, higher education, mass transit, affordable housing, and other social service programs were a significant driver of Tesla's decision to locate to Nevada, one state government official noted:

> I don't think it did at all. This is not a great commentary on Nevada. If the CEO is moving to the region, those things start to matter. If the CEO is going to remain where they are then they are just looking at the spread sheet that has my income statement on it. And that is kind of the way that works, not just with Tesla but with companies large and small.

With regards to what role higher education specifically played in Tesla's decision, a university researcher stated:

> Higher education did not have any role. That was not what Tesla was looking for. They already have access to Stanford and Berkley in their backyard. This was about production and lowering cost of production.

A state official provided one of the most succinct answers to the question- How in your opinion did the region's and state's investment in healthcare, k-12 education, higher education, mass transit, affordable housing, and other social service programs drive the decision of Tesla on where to locate their new venture? By stating simply, "No, it just had to pencil out for them." Tesla may not have valued these kinds of investments, but it is worth noting that several of the participants made a distinction between what senior executives wanted and what workers wanted. One policymaker stated:

> Here is what I would tell you. They have a mission statement so their employees are not about the money, they are more about the company's values like do they support dogs at work? These workers would be happy making 30k a year if they can wear jeans to work, so for them it is a different ideology that we have to

> embrace going forward to be successful. In order for us to be competitive we have to look at a company's values because that is really what is driving them and what the workers want in the community even if their bosses don't.

The executives focus on the company's finances and the workers focus on the community where they are going to live is also consistent with a researcher who said:

> They [Tesla] were singularly focused on profits, production and shareholders. They don't care about where their workers live just so long as they come to work and make their widgets. They have an outward facing mission statement full of the highbrow Silicone Valley catch phrases, but profit is all that matters.

This analysis is consistent with the data in this project suggesting the high turnover among tech companies creates an environment where businesses do not really need long-term committed employees to be successful. When asked about what impact Nevada's investments in social programs had on Tesla's decision, another researcher stated:

> Those considerations were minimal. They saw this for the cost savings for tax abatements, and if worse came to worse they could get their workers from California.

The interviews not only confirmed the importance of company-based incentives to Tesla, but the interviews suggested that people-based incentives as part of Nevada's proposal and historical people-based investments in the state did not matter. Despite this, many of the interview participants openly discussed, usually unknowingly, the importance of the creative class in the economic development arena.

Creative Class Considerations

Surprisingly, creative class factors were indirectly and directly discussed throughout the interviews. While there was not a specific question regarding creative class, the discussion within five different interviews prompted the researcher to explain and define the concept in an effort to frame the discussion of the interview. Following the researcher's explanation of the concept, on elected representative stated:

> While I had not heard that term before, that is exactly what I was just talking about. I sort of seems Tesla values those things most companies do, but I know their employees do, and that may be part of the problem. Tesla focused on their balance sheet and that was what it (the session) was all about. Now their employees are stuck

A researcher in higher education engaged in economic development was clearly familiar with the term and framed some of the answers around the creative class. In one instance stating:

> Nevada did not need to give away the farm here. They now know the importance of building a creative class and most importantly they know the cost of not having a strong creative class and how failing to invest in K-12 and higher education cost them dearly.

Creative class considerations were part of the conversation, but they were not clearly defined by policymakers and recognized as a specific factor. This failure to specifically define the creative class and connect the theory to economic development outcomes narrowed the options available to policymakers and eliminates the significance of people-based incentives as productive economic development tools. One policymaker pointed out how the presence of a creative class provides a safety net for workers moving to an area for employment:

> One of the concerns we have heard from workers is they want to feel like if they do not like the job that they are moving to the city to take that there are alternatives in their field, so you need some critical mass of companies to attract folks because they do not want to feel like they are trapped in a city in the job they are in.

Tesla's decision to locate their large operations to a small area in Nevada provided an interesting opportunity to constructively grow the creative class at one time. Tesla was seen as an opportunity to end this dependence while at the same time create an entirely new economy and import a creative class all at the same time. One state leader stated:

> Tesla moved 900 engineers into the Reno Sparks area; it more than doubled the number of professional engineers that work in that area, and those folks are not

> going to all stay at Tesla, they are going to leave Tesla and that kind of growth and things start to spin out on their own. After a while, you don't have to do anything. Those folks are there and they are going to start thinking about new ventures and new products and services, and pretty soon your community is just generating grown in and of itself. And that is an opportunity.

One of the more revealing comments from the interview unknowingly addressed the 'tolerance' factor of the creative class theory. A legislative leaders overserved:

> Here also is the problem today for them, so they wanted to expand their trucking thing up there and northern Nevada didn't want people of color or diversity up there.

This highlights the lack of 'tolerance' in Northern Nevada, and also supports the contention that putting Tesla in Northern Nevada showed a lack of regional awareness. Unlike Virginia, policymakers in Nevada steered Tesla to an area of the state where it was not scalable. In a follow up question to the role of geography a lawmaker stated:

> If Tesla was located in Southern Nevada, they could have more opportunity to locate some of the things they took to Texas. There are more workers, houses, and more people to hire for additional operations.

Nevada could have captured additional opportunities from Tesla if the project was located in the state where the creative class is strongest. The historical influences of regionalism impacted the institution's ability to formulate the best policy outcomes given the opportunities Tesla presented to the state.

Geographic Implications

Regional tensions and considerations were referenced by many of the participants. It is important to note that the questions provided to the participants prior to the interview referenced geographical concerns, creating some concern of the priming effect this may have had on the participants. Specifically, question number six asked participants: What role did geography play in the legislature's decision? Despite this question, without prompting many of the participants inferenced regional concerns throughout their interview, and not just in response to question number six. For example, an administrator and researcher in higher education stated:

> Geography clearly mattered to the Governor and he wanted to have this up in Northern Nevada to create that anchor tenant that then could be used to encourage other firms to invest to build a supply chain around that.

The need to build a stronger Northern Nevada was discussed by several participants who pointed out that Northern Nevada did not have a strong economy and the state was searching for an opportunity to change the trajectory of the north's reliance on the tax revenues collected in Southern Nevada. One state policymaker observed:

> Northern Nevada did not have much of a core economy once the gaming industry kind of became a local's market rather than an export industry that was actually driving the economy up north, and they needed something. And when they had gone through recessions really southern Nevada had started to have to support Norther Nevada because the economy of Northern Nevada was not as strong as it was in Southern Nevada. So, we were transferring money from Southern Nevada to northern Nevada.

This comment underscores how financial tensions have been central to the historical regional conflict that exists in Nevada. Interestingly the statement came from an interview participant who when asked what role geography played, stated, "Listen, I do not prescribe to the north vs south distraction." While this may be true, the acknowledgement of Northern Nevada's reliance on Southern Nevada is a significant grievance in the "north vs south distraction." Another local government official noted:

> One of the issues going on at the time was Washoe County was losing population, they were going backwards, and we were trying to figure out how to keep Washoe County afloat because their revenue sources. They were becoming a drain on the system as a whole so we stated looking to see what assets that we had available in Washoe- and we had quite a few. Some of it was Storey County.

Clearly, policymakers saw utility in having Tesla locate in Northern Nevada in an effort to fix their economy and mend the tensions between the two parts of the state. One researcher noted Tesla's selection of where to locate:

> Effort to recruit them to Southern Nevada that did not pan out and ultimately it gets lured to Northern Nevada with substantial tax abatements to Tesla to set up shop in Storey County.

Overall, the data from the interviews supported the strong presence of regional conflict during the special session and underscored the historical role regionalism has on influencing policymaking in Nevada. The fact that influences of regionalism was present in the comments of those who do not believe in regionalism demonstrates how policy actors are unaware the factor is present when it is clearly not only present but binding and influencing decisions.

Challenges for Nevada

The participants had very insightful observations regarding the challenges the Tesla proposal had for Nevada and in particular Northern Nevada. Survey question number nine- "What, if any, are the challenges Tesla has brought to the state?"- and follow up questions related to this inquiry yielded some of the most data rich and though provoking insight for this project. The insights challenged some of the original underlying assumptions of the project and significantly shaped the outcomes and analysis of the study. All respondents recognized the strain Tesla put on Northern Nevada, the typical strain growth presents itself was magnified due to the size of the project and the unpreparedness of the area. One researcher simply noted, "the legislators shot first and aimed later." Another researcher noted:

> Many conversations should have been had before Tesla was awarded incentives instead of trying to figure it out after the fact. If we can't put this close to the people

> what are the challenges that we are going to create, how are we going to alleviate them, who is going to pay for this infrastructure, what is this going to do for our ability to have water not just for our community but to attract additional investment?

Similarly, a state government official observed:

> Tesla overloaded the region. It brought housing shortages, higher prices, traffic is much more of an issue. The infrastructure that needs to be supplied in the area has not been able to keep up with Tesla and Tesla's growth.

All interview participants observed similar infrastructure challenges, and most of the participants observed how similar challenges existed throughout the state, regardless of where the project was to locate. Interestingly, most all of the participants recognized the infrastructure challenges would not be as severe if the project has been located in Southern Nevada.

Summary

One of the more striking comments came from another state government official who observed how putting Tesla in Northern Nevada strengthened the economy, but also made it very vulnerable:

> You almost need to have a different company of the similar scale of Tesla up there because at some level, not sure exact level, but at a pretty significant level, the region is very reliant on Tesla. And you don't want to look up thirty years from now and think we are Detroit again. Because of the relative balance of size between Teals and the region, Tesla is 22% of the regional gross product. That is a lot of reliance on one company. Now they have been a really great company and have done more than they said they were going to do, so I assume they are probably more than 22% of the regional economic driver, that over time, you need to diversify away from that. It is great to have something to rely on but you do not want to be that reliant on any one thing.

The structure of the 28th Special Session as a quick session did not provide time for thoughtful conversation and analysis. The report available to the legislators pointed out the magnitude of the project. Everyone appeared to understand the importance of creating a new economy in Northern Nevada, yet there is no record of anyone discussing the natural implications of the project. In other words, nobody discussed the wisdom of paying a relatively new company that had yet to post a profitable year hundreds of millions of dollars to locate in an area of the state that would quickly become almost completely dependent on an emerging technology. All participants responded favorable to the general fact that Tesla put the state on the map. It transformed how many people thought about Nevada and undoubtedly opened doors for future economic development opportunities. However, as with any policy, could it have been crafted better; and, of significance to this project, could better policy outcomes be achieved if policymakers understood the historical path of the institutions influencing Nevada policy formation?

CHAPTER 8: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Study

This project aimed to explain better how historical institutionalism impacts the policymaking dynamics in Nevada and, in particular, better inform policymakers of policy choices existing between company- and people-based incentive approaches as viewed through the lens of the creative class theory. Using the historical evolution of institutions within Nevada, this project sought to understand the policy choices available to decision makers and better explain the economic development tools created to attract Tesla to Nevada. Applying the historical institutionalism approach, this project analyzed an institution's susceptibility to path-dependent outcomes and applied the factors of the creative class theory to determine if the combination of these important areas of literature could offer new insight for scholars. Additionally, this project highlights better policy options for credit seeking elected officials crafting incentive packages to attract economic development- often while under intense pressure to not lose the opportunity.

This project focused on the following four research questions:

> **RQ_1**: What role does the historical evolution of Nevada's public institutions have in the policy preferences for people- or company-based investments?
>
> **RQ_2**: Do companies prefer company-based more than people-based economic incentives, and which did Tesla prefer?
>
> **RQ_3** Why does Nevada pursue company-based incentives despite the empirical research suggesting their ineffectiveness?
>
> **RQ_4**: Do these observations recommend a particular investment strategy for policymakers seeking to attract new enterprises?

Historical institutionalism, the creative class theory, and credit seeking elements of rational choice were all employed to answer the research questions and provide useful analysis for understanding policymaking behavior in the arena of economic development. Historical institutionalism provides a constructive approach to understand better the past's influences on today's policy decisions and how history frames outcomes and limits options available to policymakers. The creative class theory helps policymakers identify additional factors critical to business to help attract economic development and provides a framework for alternative policy choices based on investing in place and people to cultivate an environment capable of intrinsically driving economic development.

The mixed-methods approach of this project used a case study of Nevada with some historical comparative analysis from Brazil and Tennessee and a contemporary comparative analysis from Virginia's economic development efforts to attract Amazon-occurring a few years after Nevada's efforts to attract Tesla. In addition, the researcher conducted a comprehensive qualitative case study analysis of the 28th Special Session of the 2014 Nevada Legislature using semi-structured interviews of key stakeholders to gather data and understand the beliefs and experiences of policymakers. Combined with the data publicly available from the session, the semi-structured interviews supported the researcher's effort to answer the research questions above.

Using the historical institutionalism approach, the researcher provided a brief historical analysis of Nevada to analyze and understand the state's historical engagement with private industry to identify smokestack chasing tendencies, viewed through the lens of the state's history of regionalism, to better understand the policy leaning of the state's institutions. Combining this approach with the qualitative data from the interviews, the quantitative data from publicly available information from the session, and Nevada's allocation of state incentives since 2011, the researcher found the legislature understood many of the factors of the creative class theory. The researcher also found the understandable presence of an intense pressure to not "lose" the Tesla opportunity to another competing state. The pressure to 'win" the opportunity, combined with the state's path-dependent institutions that had evolved to prefer and sanction companies over people-based incentive policies, resulted in policy preferences toward offering Tesla a financial incentive package heavily reliant on company-based incentives to locate in Northern Nevada. The design of this project offers a practical explanation for Nevada's use of company-based incentives to attract Tesla and provides insight for policymakers regarding the influence of history on decision-making options.

Limitations on Research

Several limitations associated with this project should be considered in interpreting the results. First, the definition of "place" has evolved in the literature from referencing investments made strictly in the company to later defining the term as also including investments in people and company. The unprecise and unsettled definition of "place-based investments" has required the researcher to re-characterize information from past case studies identified as place-based investments to the more operational term of "company-based investments" for consistent usage of terms throughout this study.

Second, this project relies on a limited number of interview participants, and given the overwhelming support for the incentives to Tesla, it was challenging to find a participant opposed to the incentives provided to Tesla. All the interview participants either voted for the inventive package or publicly supported Tesla building the Gigafactory in Nevada; however, during the interviews, it became apparent that the package was a take it or leave it deal presented to the legislature for a limited time to consider during the short session that measured in hours not days.

Third, the validity of the interviewees is based on recollection of past events and the interviewee's perceptions of the researcher conducting the interview. The passage of time and the addition of new facts may alter the policymaker's version of actual intent and their recollection of the political and public pressures they faced at the time of the special session. Advanced notice of the specific questions in the interview provides the participants an opportunity to reflect, review any relevant information, and, if necessary, reinform and recollect the events of late 2014. The researcher's involvement and opinions surrounding economic development are well known to every person interviewed for this project. Given the researcher's direct interaction with Governor Sandoval and legislative leadership as well as legislative and executive department staff, it was impossible to find quality interview participants with valuable insight that were also unaware of the researcher's policy preferences and prior work. To account for this reality, the researcher was purposeful in selecting participants who would be open and uninfluenced by the researcher. Additionally, at the beginning of the interview, the researcher pointed out this reality and urged the participant to share their insight without regard to trying to anticipate the researcher's views.[25]

The case study design has a narrowed scope of the sample of documents pertaining to the 28th (2014) Special Session of the legislature, which restricts the external validity of the project. Fortunately, the researcher collected and analyzed all the

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[25] One interview participant responded to this by saying "Ryann, I love you and don't give a s*&^ about trying to guess everything going on in that brain of yours."

publicly available documents provided to legislators and media during the limited time frame between the surprise announcement of Tesla choosing Nevada, and the Governor signed the legislation awarding incentives to the company. Unfortunately, this compressed time frame resulted in a legislative session lacking significant debate, discussion, or analysis, as there was little time for the opposition to become informed or mobilized. However, despite the limitations outlined above, this project's mixed methods design and methodological framework were best suited to answer the research questions.

Research Implications

The findings of this project present several research implications. First, this project contributes to a larger understanding of the influence historically impacted path-dependent institutions have on economic development policy choices and the potential benefits of investing in people to develop the creative class.

Historically impacted path-dependent institutions

In 2011, Nevada began a deliberative approach to diversifying its economy through economic development. Similar to Virginia, the Nevada legislature created a structure for promoting economic development within the executive branch. Nevada commissioned the substantive Brookings Mountain West, and SRI report *Unify, Regionalize, Diversify: An Economic Development Agenda for Nevada* to help guide the state’s new endeavors to diversity the economy and create new jobs through attracting economic development opportunities (Muro et al*.,* 2011). In 2013, during the next regular legislative session following the report's creation, the state began implementing the report's recommendations and started the necessary long-term effort to push the state toward a more creative based economy. One year later, unlike in Virginia, elected officials in

Nevada significantly deviated from the blueprint when presented with the opportunity to bring Tesla to the state. Tesla represented the kind of company contemplated in the blueprint; however, to get Tesla, Nevada policymakers needed to provide the kinds of incentives being offered by the other states competing for the opportunity. Providing these expensive incentives required the legislature to pull funds from the programs implemented the previous year based on the Brookings SRI report. As a result, institutions within the state gravitated back to their familiar smokestack chasing beginnings, and the state reinforced its path dependency by creating a model of using special sessions to focus on what was necessary to bring one individual company to the state instead of a strategic focus on diversification within the sectors identified in the report. Policymakers in Nevada appeared unaware of how the state's institutional structures were impacting their decisions and creating an environment that reinforced the state's path dependency.

Following the path-dependent model, the Governor's office and Nevada Legislature rapidly developed numerous abatements and incentives to specifically attract Tesla to the state during an intense national competition to attract the company. The rapid formulation of public policy and the chaos that ensued ensured Nevada would rely on the latent historical underpinnings to frame the policy outcomes, thereby ushering in a disproportionate allocation of resources from Southern Nevada to support tax abatements to locate Tesla in an isolated place in Northern Nevada. When faced with the rapid disturbance-induced events of Tesla, Nevada policymakers returned to the state's reliable and trusty path; however, during the more tranquil time between special sessions, the report *Unify, Regionalize, Diversify: An Economic Development Agenda for Nevada* has successfully shifted Nevada's economy and built a foundation to strengthen future policy alternatives (Muro et al*.,* 2011).

Nevada has several structural constraints reinforcing the state's path dependency, making it difficult for policymakers to change direction. As a Dillion Rule state, Nevada concentrates decision-making power at the state level with a general reluctance by the state legislature to share power with local governments. The Las Vegas Global Economic Alliance (LVGEA) is the regional economic development authority in Southern Nevada. Unlike other regional development authorities across the country, the LVGEA receives most of its funding from the state, allowing the state- particularly the Governor's office- to have significant influence over the regional body. The institutional design and structure of the 28th Special Session made it difficult for policymakers to engage in policy alternatives deviating from the company-based incentive package presented by the Governor's office, and the session became a model for subsequent special sessions assembled for considering economic development opportunities reinforcing Nevada on a policy limiting path. These are numerous examples of institutional constraints reinforcing Nevada's path and making it difficult for the state to change course.

Investing in people to develop the creative class

During the 2014 Special Session, the legislature did not consider how the presence of more substantial creative class factors in Southern Nevada could have resulted in a better return on the taxpayer investment had the project been located there. One researcher pointed out, "The Las Vegas metropolitan region is in the 2020s, and much of Reno's infrastructure and amenities are in the 1820s." Policymakers in Virginia were aware of regional strengths and weaknesses, and they used this regional awareness to align the opportunity with compatible regions in an effort to ensure future success. As was seen in Tennessee, when company-based incentives are the primary tool to attract a company, as soon as the incentives run out, more incentives will likely be necessary to keep a company in an ill-suited location. Similar to the rurally located Saturn factory in Tennessee, Nevada's focus on company-based incentives ignored the importance of location. Data collected during the interviews suggested policymakers understood this reality; however, they believed the transformative nature of Tesla could, as one scholar interviewed stated, "constructively jump start the presence of a creative class environment." It was believed that the magnitude of the project would result in making an environment capable of attracting new enterprises to build a creative class around Tesla. While this is possible, it is yet to be determined if the Reno/Sparks Metropolitan region can make an environment capable of capturing the creative class as they leave Tesla. Had Tesla been located in Southern Nevada, it would have had the opportunity to scale and built-up to the much larger Las Vegas Metropolitan region; however, by locating in rural Northern Nevada, Reno/Sparks has to build up to Tesla's size.

Recommendations for Policymakers and Researchers

A critical implication of this project is understanding the impact of Virginia's historic people-based economic investment in attracting economic development opportunities such as Amazon's new headquarters. Virginia's historical investments in higher education and its diverse population are as attractive to businesses as direct company-based incentives. This project helps highlight how informed policymakers supporting policies to invest in their people today can be seen as valuable investments attractive to the economic development opportunities of tomorrow. The comparative analysis between Nevada and Virginia and the comparison between Virginia and New York provides a powerful evaluative approach to better inform policymakers on some of the intrinsic value in making social service-type investments in people for the purpose of economic development.

Investing in People is Economic Development

This project can help policymakers reframe investments in social service programs (i.e., people-based incentives) as critical investments in economic development. Investing in people, usually through social service type investments, can be seen as a way to attract future economic development opportunities. When a significant economic development opportunity presents itself, the outcome is usually bipartisan with almost universal support as credit seeking policymakers from across the ideological spectrum want to seize a victory as well as avoid being blamed for the lost opportunity. However, government investments in social programs such as housing, healthcare outcomes, k-12 education, higher education, transportation, and so on are often partisan fights. Viewing these investments through an economic development rather than a partisan lens could better frame the investments as job-creating, small business supporting, economy-building investments. The factors of the creative class theory provide identifiable drivers of economic development and opportunities for policymakers from different parties to support investing in people-based outcomes today to avoid the high cost of company-based incentives that will be needed in the future to overcome the deficiency from a historic lack of investing in people. Policymakers can use the creative class theory to reframe investments in social programs as long-term investments in economic development- stripping away the traditional partisan nature of these programs. When viewed through this lens, policymakers can highlight and inform the public about how past people-based investments are leading to successful economic development today and identify how company-based incentives are largely necessary to overcome insufficient past investments. While this will not always be the easiest needle to thread, policymakers committed to people-based investments should consider this line of reasoning to set the stage for productive discussions on the need for people-based investments to generate economic development opportunities.

Empower Reformed Local Governments

The structure of government influences economic development decisions, and research suggests that credit-seeking is more dominate in partisan government structures and environments (Feiock et al., 2003, p. 619). A significant body of research suggests that the national progressive reforms from the late 1800s that transformed local governments from partisan institutions to council-manager governments insulated local decisions from many external political pressures (Feiock & Clingermayer, 1986; Feiock et al., 2003; Feiock & Kim, 2000; Frant, 1993, 1996; Lyons, 1978; Lineberry & Fowler, 1967).

The research suggests that governments at the municipal level can be best suited to make economic development decisions that benefit residents. Sharp found that the number of company-based incentive offerings benefiting the developers decreased in reformed (council-manager) settings (1991, p. 142). Local governments, with reformed structures run by professional bureaucrats, “provide local officials with an opportunity to respond to underlying economic problems and to match development policies to specific needs, rather than simply responding to political pressures for development" (Feiock et al., 2003, p. 619). This insulation of the development processes helps to remove some of the "credit-seeking" behavior influencing partisan policymakers seeking higher office. In New State Ice Co. v Liebmann (1932), Supreme Court Justice Louis Brandeis wrote, "a single courageous State may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country." For purposes of this project, it is suggested that municipal governments are best suited to experiment with economic development incentive packages to attract companies into their community. The state government should develop incentive tools and align policies and budgets around creative class-type people-based investing; however, partisan institutions are not best suited to engage in awarding incentives.

Hire Professionals

Government officials negotiating incentive packages should seek outside help when negotiating economic incentive proposals. Government officials should contract with professionals when engaged in negotiating with sophisticated firms. Private sector law firms, lobbying firms, accounting firms, and other professionals are all available to assist government bureaucrats in structuring a deal. An investment in outside experts could more than pay for itself over the lifespan of these billion-dollar incentive packages.

Future Research

Amazon's decision to split its H2Q project between Virginia and New York could provide fertile ground for future research. Toward the end of this project, the researcher found fertile comparative value between the two sites selected by Amazon. The direct comparison of Virginia and New York provides a head-to-head comparison between New York's largely company-based incentive proposal and Virginia's people-based incentive proposal. These two opposite approaches induced nearly the exact same development opportunity from the same company. New York had to pay Amazon directly for deficiencies in the creative class to get the same economic development commitments that cost Virginia half as much money. A thorough comparative case study of New York and Virginia could provide future research opportunities to understand better the interplay between how a state's past people-based investments attract economic development and result in those states having to pay less in company-based investments in the future.

Conclusion

In the debate between people or company-based incentives, the 28th Special Session of the Nevada Legislature provides valuable insight for policymakers deploying economic development inventive tools to create opportunities for their residents. This case study compared the impacts on a community with a history of making people-based investments and a community with a history of making company-based investments. More specifically, the project used a case study of Nevada with some comparisons from other states to analyze how historical people-based investments can provide a sustainable pathway for future economic development opportunities.

Economic development is the buzzword in government at the federal, state, and local levels. Emerging from the Great Recession, local governments aggressively pursued economic development opportunities to insulate themselves from future downturns. As a result, the competition among government entities for emerging or expanding businesses became intense as states and local governments looked to prospective businesses as an economic lottery ticket and game-changer, capable of bringing jobs to depressed areas and providing tax revenues to restore and protect government services threatened by economic downturns of the past.

It has been noted in the research that chance, serendipity, or “historical accidents” are often the cause of economic development spurred by innovation (Feldman & Florida, 1994, p. 211). Feldman and Florida discussed how many of the researchers found it difficult to pinpoint “exactly why some regions are able to capture the consequent benefits of serendipity, while other regions are not and the fortunes languish” (1994, p. 211). The creative class theory provides valuable insight into this question by challenging the accidental view of economic development and confronting the view that states should sit on the sidelines, waiting for a company to swoop in and extract large company-based incentives from an ill-prepared state.

The value of this project depends on the takeaways that policymakers can use in the future as they seek ways to diversify and grow their economies. One critical question following the analysis of this project is whether company-based incentives and people-based incentives can be combined to create a superior set of policy initiatives. When looking at the impacts of people-based and company-based policies on national housing policy, Professor George Glaster asks a similar question, “Is there a way to synthesize elements of both people-based and company-based housing strategies so that their comparative strengths can be leveraged to gain maximum impact from our scarce housing policy public resources?” (2017). An equally important issue concerns whether this synthesis can take place within other areas of economic development.

As this project shows, economic development in Nevada disproportionately advantaged the North as policymakers failed to leverage the valuable assets in Southern Nevada. In addition, the recovery of the 2020 COVID pandemic illustrates the unequal treatment of Southern Nevada as job recovery in Northern Nevada was nearly at pre-pandemic levels, while unemployment in the South was still above 14%. According to the theory proposed by Bruce Katz and Jennifer Bradley in their book, *The Metropolitan Revolution*, metropolitan areas need to assert their political independence and take charge of their affairs- in Nevada; and this is especially true when it comes to economic development (2013). While most states play the central role in negotiating and awarding economic development incentives, especially as it comes to tax incentive packages, giving local governments more control could lead to better policy outcomes.

Policymakers need to proactively work to counter the path dependency their institutions were historically designed to stay on. It is important for Nevada policymakers to recognize that the state's institutions have historical rent-seeking tendencies that can limit policy choices and guide the state toward company-based incentives. Companies, particularly the often-sought manufacturers, rank company-based government incentives 17th out of 21 factors they consider when deciding where to locate new assets (Thornton, 1989). This reality is further reinforced in a study of Fortune 500 companies which concluded that state incentives had "little influence on almost all plant location decisions" (Schmenner, 1982, p. 51). Despite these findings, states like Nevada, facing the imminent need to diversify their economy, may need to use some form of company-based incentive strategy to overcome past failures to invest in people in order to jump-start their economy properly. For example, Nevada used company-based incentives to jump-start the economy in Northern Nevada while also constructively building a creative class overnight by inducing the labor migration of over 900 engineers into the Reno/Sparks Metro region. This project suggests the total dollar amount of incentives a state needs to provide is less for states who have historically invested in its people, which is seen clearly in the analysis of the different packages Virginia and New York had to offer to attract the same economic development opportunity from Amazon.

The usual economic justification for using incentives is that the cost of the subsidies will be offset by the potential for future tax revenues resulting in a net increase. Despite this being the primary argument provided by state and local governments engaging in competitive efforts to attract new enterprises to their jurisdictions, policymakers often can fail to look beyond simply ensuring tax revenues compensate for the value of the subsides. In Nevada, policymakers focused on whether Tesla economically penciled out in Northern Nevada without engaging in a similar analysis to identify how much more profitable it would have been to locate the project in Southern Nevada. Policymakers in Virginia were focused on maximizing the return on the tax investment by using geographical awareness to maximize the state's return. This 'return on investment' or ROI approach is used by the enterprise seeking to maximize their bottom line, but unfortunately, public sector policymakers are often not conditioned to use the same private sector financial analysis. The rent-seeking enterprise is often indifferent to the actual location within the state, so long as it is suitable and the company gets the incentive package to maximize their rents. It then becomes incumbent on the state to do the math and identify where the investment would be maximized - often, the location of the enterprise within the state can be a critical factor to consider when trying to maximize the ROI for ratepayers. In the case of Nevada, when Tesla was located in Northern Nevada, it tapped out the existing workforce, dramatically impacting the housing supply and subsequently impacting the projected ability for Tesla to attract other enterprises. Locating the Tesla Gigafactory in Southern Nevada would have been more scalable for Tesla- providing the workforce for the company's future expansion and accommodating housing needs without creating a housing crisis. Once again, Reno had to build up to Tesla's size instead of Tesla building up to Reno.

This project provides substantive insight for policymakers committed to growing and strengthening their economies. Politicians receive short-term gain from landing large economic development opportunities where the immediate returns are great. However, the long-term costs associated with the arrangement are latent, which is why pushing these decisions down to the local level produces better policy outcomes. The creative class theory provides a valuable approach to help policymakers understand the importance of investing in their people to attract and retain economic development opportunities. The case study of Nevada provides insight into endogenous and exogenous policy actors engaged in economic development at all levels of government. Putting people before the company supports and lifts communities today and is a down payment on the state's economic future.

APPENDIX A: IRB EXEMPT REVIEW EXEMPT NOTICE

UNLV

UNLV Social/Behavioral IRB - Exempt Review
Exempt Notice

DATE:	May 21, 2021
TO:	David Damore
FROM:	Office of Research Integrity - Human Subjects
PROTOCOL TITLE:	[1729792-3] A Cautionary Tale from the Desert: People Before Place? Comparing Economic Development in Nevada and Virginia.
ACTION:	DETERMINATION OF EXEMPT STATUS
EXEMPT DATE:	May 21, 2021
REVIEW CATEGORY:	Exemption category #2(ii)

Thank you for your submission of Revision materials for this protocol. This memorandum is notification that the protocol referenced above has been reviewed as indicated in Federal regulatory statutes 45CFR46.101(b) and deemed exempt.

We will retain a copy of this correspondence with our records.

PLEASE NOTE:
Upon final determination of exempt status, the research team is responsible for conducting the research as stated in the exempt application reviewed by the ORI - HS and/or the IRB which shall include using the most recently submitted Informed Consent/Assent Forms (Information Sheet) and recruitment materials.

If your project involves paying research participants, it is recommended to contact Carisa Shaffer, ORI Program Coordinator at (702) 895-2794 to ensure compliance with the Policy for Incentives for Human Research Subjects.

Any changes to the application may cause this protocol to require a different level of IRB review. Should any changes need to be made, please submit a **Modification Form**. When the above-referenced protocol has been completed, please submit a **Continuing Review/Progress Completion report** to notify ORI - HS of its closure.

If you have questions, please contact the Office of Research Integrity - Human Subjects at IRB@unlv.edu or call 702-895-2794. Please include your protocol title and IRBNet ID in all correspondence.

Office of Research Integrity - Human Subjects
4505 Maryland Parkway . Box 451047 . Las Vegas, Nevada 89154-1047
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APPENDIX B: ORI-HS ADMINISTRATIVE REVIEW MODIFICATION ACKNOWLEDGMENT

UNLV

ORI-HS, Administrative Review

Modification Acknowledgment

DATE: March 15, 2022

TO: David Damore
FROM: Office of Research Integrity – Human Subjects

PROTOCOL TITLE: 1729792-EXE A Cautionary Tale from the Desert - People before Company: A Case Study on Economic Development Approaches in Nevada
SUBMISSION TYPE: Modification

ACTION: Approved
EFFECTIVE DATE: March 15, 2022
REVIEW TYPE: ADMINISTRATIVE REVIEW

Thank you for submission of amendment/modification materials for this proposal. ORI-HS has acknowledged your submission. No additional action is required at this time prior to moving forward with the acknowledged changes.

The following changes are acknowledged:

Revised protocol to focus on Nevada as a case study
Removed Virginia leaders as a participant population
Revised study title, recruitment materials, survey, and consent form

PLEASE NOTE:
Should there be any change to the proposal, it will be necessary to submit a modification for review. No changes may be made to the existing proposal until modifications have been approved/acknowledged.

Any non-compliance issues or complaints regarding this proposal must be reported promptly to this office.

If you have questions, please contact the Office of Research Integrity - Human Subjects at IRB@unlv.edu or call 702-895-2794. Please include your proposal title and proposal ID in all correspondence.

Office of Research Integrity - Human Subjects
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APPENDIX C: INFORMED CONSENT

EXEMPT RESEARCH STUDY

INFORMATION SHEET

Greenspun College of Urban Arriars

TITLE OF STUDY: A Cautionary Tale from the Desert: People Before Place? Comparing Economic Development in Nevada and Virginia.

INVESTIGATOR(S) AND CONTACT PHONE NUMBER: Ryann Juden, 702-569-2333

The purpose of this study is to analyze whether prospective companies looking to locate an economic development project prefer government investments in place-based economic development or investments in people-based economic development and the role of the state vs local governments. This analysis compares Tesla's September 2014 decision to build its first Gigafactory for manufacturing of batteries in Sparks, Nevada and Amazon's September 2017 decision to build its HQ2 corporate headquarters in Arlington, Virginia.

You are being asked to participate in the study because you have been identified as a local or regional expert leader who participated in the process to develop economic development tools to attract Tesla to Nevada, or to attract Amazon to Virginia. If you volunteer to participate in this study, you will be asked to participate in a 45-60 min audio recorded interview. The recordings and any transcriptions for each interview will be stored in a password protected personal (limited access) Google Drive specifically dedicated to this project. The length of data storage will be 3 years.

This study includes only minimal risks. The time commitment in full is an estimated 1 hour and 45 minutes total: 15 minute invitation review and reply via email, 15 minute interview question review via email, prior to interview, 45 minute to 1 hour interview via Google Meet, and a 15 min thank you message. You *will not* be compensated for your time.

For questions regarding the rights of research subjects, any complaints or comments regarding the manner in which the study is being conducted you may contact **the UNLV Office of Research Integrity – Human Subjects at 702-895-2794, toll free at 888-581-2794, or via email at IRB@unlv.edu.**

Your participation in this study is voluntary. You may withdraw at any time. You are encouraged to ask questions about this study at the beginning or any time during the research study. You can also choose to have your identity revealed, and your interview responses attributed to you in written or oral materials that link you to the study.

Participant Consent:
In order to protect your privacy and provide you with ample confidentiality, I will obtain verbal consent at the beginning of our interview.

APPENDIX D: IN-DEPTH SEMI-STRUCTURED INTERVIEW QUESTIONS

1. Could you provide your version or a brief history of the legislative process to attract Tesla to Nevada?
2. Based on your history, could you identify 3 (or more) critical moments in this timeline? i.e., which events were most pivotal, and how/why? What would you say was Nevada's goal for attracting Tesla?
3. How in your opinion did the region's and state's investment in healthcare, k-12 education, higher education, mass transit, affordable housing, and other social service programs drive the decision of Tesla on where to locate their new venture? Your response can reflect both positive and/or negative contributions.
4. How, if at all, where other public sector or private sector institutions critical to the Tesla's decision to come to Nevada? In your opinion, what are the existing regional or state strengths for business development and how did they drive Tesla's decision?
5. How important were Nevada's economic incentives in attracting Tesla? How critical were the economic incentives that were created specifically for the enterprise?
6. What role did geography play in the legislature's decision?
7. What role did higher education play in the company's decision?
8. Could you share your perspective on the value Tesla has brought to Nevada?
9. What, if any, are the challenges Tesla has brought to the state?
10. What, if anything, could have been done differently to improve outcomes?
11. How can local governance and policy support or hinder economic development?

12. From your perspective, what are Nevada's strengths and weaknesses when attracting economic development opportunities?

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CURRICULUM VITAE

Ryann Patrick-Shell Juden, Ph.D., J.D.

Curriculum Vitae

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Las Vegas, NV 89154
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EDUCATION

Ph.D. Public Affairs, 2022, *University of Nevada, Las Vegas*
Dissertation: A cautionary tale from Nevada's desert- People before company: a case study on economic development approaches in Nevada **Advanced to Candidacy:** Oct. 6, 2021 **Dissertation Defense:** Apr. 7, 2022

J.D. Juris Doctor, 2005, *The University of Iowa College of Law*
Graduated with Highest Service Honors
2005 Hancher-Finkbine Medallion Recipient: most prestigious award at University of Iowa to recognize top graduate level student at University for outstanding learning, leadership and loyalty
Chairman, Moot Court- selected by students to administer graduation requirement for second year students
Created the Boyd Service Award recognition program for students who show a commitment to community service throughout their law school careers.

B.A. Political Science, 2002, *Brigham Young University*
Graduated with Honors, Minor in Psychology
Elva Pedersen Jorgenson Scholar
Worked with Utah Legislature and state board of regents to pass higher education policy to implement service learning throughout state

A.A. Associate in Science, 2000, *Utah Valley State College*

PROFESSIONAL EXPERIENCE

2018- present City Manager & CEO, City of North Las Vegas
North Las Vegas, NV

- Responsible for preparing $800+ million annual budget and directing the day-to-day operations of 1600+ employees providing municipal services to 270,000+ residents within 105 square miles
- Raised city's bond rating from junk to investment grade, turned $156 million structural deficit into $28 million surplus in five years

- Built new tax base by installing over $200M in water infrastructure and streamlining building permitting to attract 100M+ sq/ft of new business, creating 34,000+ direct and indirect jobs representing over $5B in regional economic impact
- Awards: 2021 Cashman Good Government Award Winner, 2022 Silver State Executive of the Year

2013- 2018 Assistant City Manager/Chief of Staff, City of North Las Vegas
North Las Vegas, NV

- Developed and implemented strategic plan to fix city's financial crisis, restructured city departments to facilitate economic development, and removed city from state fiscal receivership
- Served as lead negotiator to successfully enter multiple collective bargaining agreements with six labor groups
- Wrote and lobbied new laws at state legislature, developed strategy for historic 29th (2015) Special Session of Nevada Legislature held for the City of North Las Vegas

2015-2018 Adjunct Instructor, Department of Social Sciences
College of Southern Nevada
PSC 101 Online- Introduction to American Politics

- Instructor of record for multiple sections of an online basic course in American and Nevada politics
- Course conducted through online delivery system of live and taped content (Canvas)

2011-2014 Adjunct Instructor, Department of Political Science
University of Nevada, Las Vegas
PSC 101- Introduction to American Politics

- Instructor of record for in-person introductory course on state and local governments, Nevada constitution and contemporary issues

2011-2014 Adjunct Instructor, Department of Social Sciences
College of Southern Nevada, Las Vegas, NV
PSC 101 - Introduction to American Politics

- Provide classroom lectures in Intro to American Politics
- In-person class, with extensive integration of online course delivery system (Canvas)

2011-2014 Adjunct Instructor, Department of Social Sciences
College of Southern Nevada, Las Vegas, NV
PSC 257- Political Parties and Interest Groups

PSC 259 Lobbying and Issue Advocacy

- Provide in-person classroom lectures in PSC 257 course examining history, purpose and organization of political parties and interest groups
- Provide in-person classroom lectures in PSC 259 examining the profession and tactics of lobbying and issue advocacy

2008-2013 Partner, Verus Strategies
Las Vegas, NV

- Counseled clients on public relations, communications strategies, and regulatory compliance
- Draft and deliver testimony in public hearings, developed issue papers, and coordinated media
- Built and lead bipartisan coalitions to drive significant policy changes in local and state government

2005-2010 Vice President, Juden Design and Investments LLC
Las Vegas, NV

- Provided day to day management of staff of 40+, directed international product development
- Counseled industry associations on lobbying, government policies, and state/federal legislative proposals

May-Aug 2004 Associate, Beckley Singleton Chtd.
May-Oct 2005 *Las Vegas, NV*

- Prepared legal memos detailing research results and applied research to legal problems
- Researched and prepared court pleadings and motions, met and counseled with clients

2003- 2005 Staff, Larned A. Waterman Iowa Nonprofit Resource Center
Iowa City, IA

- Research Assistant to President Emeritus University of Iowa
- State Liaison, White House Office of Faith-Based and Community Initiative- facilitated incorporation of federal initiative within state government structures to increase accessibility of federal grants to FBCOs and federal grant compliance

Feb 2004- Special Assistant, Iowa Governor's Nonprofit Taskforce**-** appointed
Jan 2005 by Governor Tom Vilsack, *Des Moines, IA*

- Assisted in drafting Iowa's Principles and Practices for Charitable Nonprofit Excellence
- Provided policy direction for meeting agendas and managed logistics for taskforce members

2001-2002 Constituent Services Rep/ Paid Intern, U.S. House of Rep, Hon. Chris Cannon, *Washington, DC; Provo, UT*

- Worked on Judiciary Committee issues including legislation creating the White House Office of Faith Based and Community Initiatives, immigration, and the MOCA Act

COMMUNITY SERVICE

Three Square 2017-Present
North Las Vegas, NV

- Member, Board of Directors; Secretary, Executive Committee; Chair, Committee of Government & Compliance

Voluntary Representative, The Church of Jesus Christ of Latter-day Saints 1995-1997
Vina del Mar, Chile

- Trained, counseled, and taught 120-150 missionaries; trained local church leaders

University of Iowa College of Law 2003-2005

- Created teaching curriculum to train law students aiding victims of domestic violence and established legal clinic for VOWA petitioners
- Lead initiative to create a service-learning program and service distinction for graduating law students and a separate program for undergraduate students

Scout Master/Assistant Scout Master, Boy Scouts of America 2002-2018
Iowa- Nevada

- Teach, mentor, and counsel 11 to 18-year-old
- Merit badge counselor for various citizenship badges

INTERESTS

Fluent in Spanish; Eagle Scout Award; Enjoy running, SCUBA diving, cycling and camping