Evaluating Tax Incentives: Choosing Goals and Measuring Results

Sept. 9, 2013

The Webinar has not yet begun.
Audio will be available using your computer's speakers.

Moderator: Mandy Rafool, Program Principal, National Conference of State Legislators
Evaluating Tax Incentives: Choosing Goals and Measuring Results

Audio Information:
- Audio is now available through your computer's speakers

Or, You may login via telephone:
- Dial: +1 (646) 307-1706
- Access Code: 507-310-040
- Pin: Shown after joining the Webinar
Today's Speakers

Julie Srey
Associate, Economic Development Tax Incentives Project
Pew Charitable Trusts

Robert Zahradnik
Director, State Policy, State Fiscal Health and Economic Growth
Pew Charitable Trusts

David Kirchner
Senior Program Evaluator, Minnesota Office of the Legislative Auditor

Brent Lane
Director, Carolina Center for Competitive Economies
Julie Srey is an associate with Pew’s economic development tax incentives project, which helps states advance policies that make their incentives effective, accountable, and fiscally sound.

In her current position, Srey works with state officials, including technical assistance to develop and adopt policy solutions. She also conducts research for 50 state studies that highlight proven approaches to tax incentive evaluation that other states can learn from.

Srey came to Pew in 2012 after working as an analyst for Greenberg Quinlan Rosner Research, where she conducted public opinion research for numerous campaigns, issue organizations and corporations. She also worked as a legislative assistant for U.S. Senator Kay R. Hagan, where she advised on judiciary, labor and employment policies. Previously, Srey worked as a policy and research analyst for numerous federal political candidates.

Srey holds a bachelor of arts in political science and psychology from Tulane University.
Robert Zahradnik is policy director for Pew's work on state fiscal health and economic growth. He supervises initiatives that help states improve the return on investment from economic development tax incentives and better manage revenue projections and volatility.

Zahradnik oversees research on tax incentive evaluation and long-term budgeting practices and directs technical assistance provided to state leaders including data analysis, policy development, and outreach to key stakeholders and the public. He is a frequent speaker on these issues and has presented to state legislators and a wide range of professional and academic associations.

Before joining Pew in 2010, Zahradnik worked for the chief financial officer of the District of Columbia as a manager in the Office of Budget and Planning and then as director of research in the Office of Revenue Analysis. He was also a senior policy analyst with the Center on Budget and Policy Priorities in Washington, D.C.

Zahradnik holds a bachelor of arts degree in communications from Penn State University and a master's of public administration from George Washington University.
David Kirchner is a Senior Program Evaluator with the Minnesota Office of the Legislative Auditor. In addition to his financial audits, the Legislative Auditor provides the Minnesota Legislature with independent, in-depth evaluations of programs managed or overseen by state government agencies. Topics are chosen by a bipartisan legislative committee.

David joined the office in 2006 and has worked on evaluations related to economic development, natural resources, human services, education, transportation and other policy areas. Prior to joining the Legislative Auditor's staff, he held teaching positions in the political science departments of Hamline University and Millikin University.

David holds a Ph.D. in political science from Washington University in St. Louis and a B.A. from Yale University. He lives in St. Paul.
E. Brent Lane is director of the Carolina Center for Competitive Economies, part of the Frank Hawkins Kenan Institute of Private Enterprise, which works with communities to make strategic decisions and investments to become economically competitive and prosperous.

Lane brings to this work three decades of experience at the state- and regional-government levels and within the nonprofit sector integrating programs and personnel to support targeted economic development initiatives.

His professional expertise and research interests focus on the roles of technological innovation and emergent industry financing in economic competitiveness, venture capital, research commercialization, and entrepreneurial development in private, public, and university venues.

Lane has created and directed numerous innovative economic ventures, ranging from a seminal seed capital investment fund to the first technology incubator in North Carolina's The Research Triangle Park™ to the design and launch of the largest community development venture capital fund in the United States.
EVIDENCE COUNTS
Evaluating State Tax Incentives for Jobs and Growth

JULIE SREY
Trade-offs
AVOID BLANK CHECKS

EVALUATE RESULTS

INFORM POLICY CHOICES

$
• Did the incentive affect the choices businesses made?

• Were existing businesses harmed by the incentive?

• Did the benefits outweigh the negative effects?
• Is the program meeting the state’s goals?

• How could it be improved?

• Are the state’s incentives working together efficiently?
Evaluating Minnesota’s JOBZ Program

September 9, 2013
JOBZ Program

- Economic development program begun in 2004 intended to spur employment in nonmetro Minnesota
- Tax breaks given to businesses that:
  - Relocated or expanded outside the Twin Cities metropolitan area
  - Hired more employees, and
  - Signed agreements with local governments to meet certain goals
- Our evaluation was released in February 2008
Key Criteria

- Did JOBZ assist economically distressed communities?
- Did JOBZ increase employment?
- Did JOBZ help Minnesota compete with other states?
- Did the state agency effectively monitor participants?
- Did the state agency capably administer JOBZ?
- Were reports of program success accurate?
Economic Distress

- Examined how the state agency had implemented economic distress criteria outlined in law

- **Conclusion:** Statutory language extending the program to more communities enabled the state agency to ignore the economic distress criteria
Employment

- Compared overall job growth in JOBZ regions to jobs reported by program
- Used unemployment insurance data to check employment increases at each participating company
- Reviewed actual requirements for hiring in agreements signed with local governments
- Conclusion: State agency reports overstated increases in employment due to JOBZ
Competition

• Determined previous locations of participating businesses
• Reviewed type of businesses
  – Where were their customers located?
  – Where were competitors located?
• Interviewed local officials
• Conclusion: JOBZ may have simply moved economic activity around without increasing overall regional employment
Compliance

• Analyzed unemployment insurance data for participating businesses
  – Were they meeting their required targets?
  – Had state agency identified those that weren’t?
• Examined tax forms filed by participating businesses
• Conclusion: Approximately one-third of participating businesses may not have met their obligations
• Conclusion: The state agency’s compliance process was exceptionally slow and did not catch all noncompliant businesses
Program Administration

• Scrutinized the commitments made by each participating business
• Reviewed reporting forms used by state agency to monitor program participation and accomplishments
• Examined other program documentation
• Conclusion: Numerous implementation problems weakened the program
• Conclusion: Local governments allowed businesses to enter the program with very minimal obligations
Key Flaws Of JOBZ

- No statewide perspective guiding entry into program
- No limit on participation
- No checking to see if participants were competing with other Minnesota firms
- Tax breaks were not proportional to number of jobs created
- Sloppy administration
- Weak enforcement
Lessons For Evaluators

- Don’t accept data at face value
  - Independently verify if possible
  - Look for unlikely outcomes
- Read the fine print
- Look beyond the program participants
- Examine compliance monitoring
- Find illustrative stories
JOBZ Program
is available at

www.auditor.leg.state.mn.us/ped/2008/jobz.htm
Evaluating North Carolina’s Tax Incentives

Brent Lane
Frank Hawkins Kenan Institute of Private Enterprise
Kenan-Flagler Business School
University of North Carolina
NC’s Tax Incentives 1996-2006

- 1996 created narrow **TAX CREDITS** for job creation, investment and worker training
- Expanded to add’l industries and all NC
- **GRANT** incentives added later
NC “Lee Act” Tax Credits

- Up to $12,500 credit per new job created
- 7% tax credit for capital investments
- 5% R&D tax credit
- Varying credits for training
- Max. annual tax reduction
- Carry-forwards = 5 to 30 years
2007-09 Incentive Study

18 month, $300k multi-institutional
- Prompted by high profile incentive deals
- Legislative study committee convened

GRANT INCENTIVES
...and Tax Credits
10 Year “Costs” > $2 Billion

Kenan Institute of Private Enterprise
What Does Success Look Like?

Made legislators specify evaluation criteria

- Job creation
- Distressed areas benefit
- Economic competitiveness
- Tax policy alternatives
Task Granularity

- Incentives use distribution
- Firms’ pre/post incentive jobs
- Incented/non-incented employment change
- Executive incentives surveys
- Case studies on utilization
Data needs required special legislation and security measures

- Data and tax filings on 3,000+ incented firms from Revenue and Commerce departments
- Pre/post incentive quarterly employment for each incented firm from NC ESC
Most NOT Jobs Based

- Jobs: 17%
- R&D: 15%
- Training: 1%
- Investment: 66%

Kenan Institute of Private Enterprise
Poorest Counties

Poorest 14%
Incentive Portfolio Analysis

“What Works Best?” not “Do They Work?”

- Post incentive job growth by incentive type
- Performance over time
- Performance relative to NC economy

“Correlation first, causality later”
1. 37 companies with growth rate greater than 1000% are eliminated from graph
2. 697 (57.46%) companies’ growth rates from 96 to 06 are positive
3. 501 (41.30%) companies’ growth rates from 96 to 06 are negative
4. 15 (1.24%) companies’ growth rates from 96 to 06 are zero
Average Employment for Companies ONLY Receiving Lee Act Machinery and Equipment Tax Credit in 2004
Average Employment for Companies ONLY Receiving Lee Act Job Creation Tax Credit in 2004

Number of Companies: 38
Average Employment for Companies ONLY Receiving Research and Development Tax Credit in 2004

Number of Companies: 41
Credit Obsolescence

Employment Growth Rate: State vs. Incentive Companies with Single Location

State-wide Employment

incentive companies 96-06 (Number of Companies: 1213)

Kenan Institute of Private Enterprise
Economic Development Success
Isn’t Economic Success

NC Per Capita Income as % of US

1969: 79%
1973: 83%
1982: 81%
1989: 89%
1997: 93%
2006: 87%

Kenan Institute of Private Enterprise
NC tax credits anachronistic/counter-productive

- Diminishing ROI on increasing cost
- Credits’ outcomes are contrary to NC goals
- Negative effect on perceived business climate
- Time to re-allocate “incentive portfolio”
Recommended elimination of most tax credits, grant increases, and corporate tax reduction

Findings incorporated into broad tax reform initiative begun in 2009

Implemented in 2013 tax reform
Lessons

- “Day Zero” political leadership ownership
- Monthly meetings with legislators
- Align metrics with consensus strategic goals
- Design around data need, not availability
- Address if even “successful” tax credits matter
Questions?

- To ask a question, type your question into the box on the right-hand side of your screen.
  - You will not be identified and only the presenters will see your question.
Questions after the webinar

- If you have any questions regarding this Webinar, please contact: Aron Snyder
  aron.snyder@ncsl.org

- This Webinar will be archived and will be available at the following link:
Resources

The Pew Charitable Trusts Website: http://www.pewtrusts.org/
  ▪ Evaluating Tax Incentives Resources: http://www.pewstates.org/taxincentives


The Minnesota Office of the Legislative Website: http://www.auditor.leg.state.mn.us/

The Carolina Center for Competitive Economies Website:
  http://www.kenan-flagler.unc.edu/kenan-institute/about/organization/competitive-economies
Thank you for participating!

Please take a short survey to evaluate this webinar:


For more information on this webinar or future webinars, email events@ncsl.org.