Making the Costs of Tax Incentives More Predictable

January 14, 2016

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Moderator: Mandy Rafool, Program Principal, National Conference of State Legislators
Making the Costs of Tax Incentives More Predictable

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Today's Speakers

Josh Goodman
Officer, Economic Development,
The Pew Charitable Trusts

John Estus
Director of Public Affairs, Oklahoma Office of Management & Enterprise Services

Joe Bolkcom
Senate Majority Whip
Iowa
Josh Goodman is an expert on economic development tax incentives with The Pew Charitable Trusts’ state fiscal health and economic growth project.

He was the lead writer for Pew’s first two research reports on tax incentives, Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth and Avoiding Blank Checks: Creating Fiscally Sound State Tax Incentives, and, most recently, “Reducing Budget Risks: Using Data and Design to Make State Tax Incentives More Predictable.” He provides technical assistance to lawmakers proposing legislation requiring regular and rigorous evaluation of tax incentives. He also assists state analysts studying the results of tax incentives. Goodman was a staff writer for Stateline, Pew’s daily news service covering state government, and reported on tax and budget issues.

Before joining Pew, he was a staff writer at Governing magazine, covering state legislatures, fiscal issues, health care, and transportation, among other topics. He holds a bachelor’s degree in politics from the University of Virginia.
John Estus is director of public affairs for the Office of Management and Enterprise Services, the central finance, property, purchasing, human resources and information technology provider for Oklahoma state agencies. OMES also contains the governor's budget office.

As public affairs director, Estus serves as the primary OMES spokesman, oversees all agency communications and is a liaison to the governor's office and Legislature on policy and budgetary matters. Estus came to OMES from the Oklahoma House of Representatives, where he held communications and policy roles on the staff of a former House speaker.

Estus entered public service after more than a decade in journalism as an investigative reporter focusing on state, city and county government. He has also worked in the music industry as an artist, tour and venue manager. Estus studied journalism at Oklahoma State University.
Senator Joe Bolkcom is currently serving his fifth term in the Iowa Senate. He represents Iowa City, University Heights, East Lucas Township and the city of Hills. He previously served for six years on the Johnson County Board of Supervisors.

Senator Bolkcom is the Senate Majority Whip, chair of the Ways & Means Committee, and co-chair of the Legislative Council’s Tax Expenditure Committee. He also serves on the Appropriations, Commerce, Human Resources, Natural Resources & Environment committees and Health & Human Services Budget Subcommittee.

Joe is a member of FEMA’s national advisory council. Before becoming a county supervisor, he worked for three years at the Johnson County Public Health Department addressing the county’s leading health issues, including youth access to tobacco products and environmental health concerns.
Josh Goodman
Officer, Economic Development
The Pew Charitable Trusts
Reducing Budget Risks
Using data and design to make state tax incentives more predictable
Michigan’s Estimates of Its MEGA Tax Credit Liability, FY 2015–32

Flawed assumptions led Michigan to underestimate the state’s MEGA commitment in 2011 and 2014.

Note: The increased estimates were primarily a result of refinements to the state’s forecasting methods, although new tax credit authorizations and revisions to existing authorizations also increased the state’s liability.

Sources: Michigan Economic Development Corp.; Michigan Senate Fiscal Agency
Rising costs may reflect design flaws

Weaknesses of the New Mexico High Wages Jobs Tax Credit (prior to 2013 reforms):

- Companies could claim credits for jobs created many years earlier, even if those jobs no longer existed.

- Companies could claim credits for jobs added through mergers or acquisitions without boosting net New Mexico employment.

- The program was intended to only benefit export businesses, but a technicality allowed some national retailers to qualify.
Strategy #1: Gather and share high-quality data on the costs of incentives by:

- Regularly forecasting the cost.
- Monitoring costs and commitments of large and high-risk programs.
- Sharing timely information on incentives across relevant agencies.

Strategy #2: Design incentives in ways that reduce fiscal risk, including:

- Capping how much programs can cost each year.
- Controlling the timing of incentive redemptions.
- Requiring lawmakers to pay for incentives through budget appropriations.
- Restricting the ability of companies to redeem more in credits than they owe in taxes.
- Linking incentives to company performance.
- Requiring businesses to provide advance notice of program participation.
Value of Tax Credits Authorized and Redeemed Under the Missouri Works Program

Missouri produces detailed forecasts of the costs of the state’s tax credits. These forecasts show that the Missouri Works program is not costing much yet, but the state is authorizing incentives today that are likely to increase costs in the future.

Note: Fiscal year 2015 and 2016 data are projections.
Source: Missouri Department of Economic Development
Caps: Incentives under the California Competes Tax Credit are awarded based on a competitive application process that happens three times a year.

**Updates**

For fiscal year 2015-16, GO-Biz will accept applications for the California Competes Tax Credit during the following periods:

- July 20, 2015, through August 17, 2015 ($75 million available)
- January 4, 2016, through January 25, 2016 ($75 million available)
- March 7, 2016, through March 28, 2016 ($50.9 million plus any remaining unallocated amounts from the previous application periods)

Source: Governor’s Office of Business and Economic Development
Florida’s appropriations approach encourages lawmakers to regularly review economic development programs.

“Fla. jobs programs may get a revamp”
-Tampa Bay Times

“Development money debated”
-Sarasota Herald Tribune
Advance notice of program participation helps forecasts
Projections for Utah’s Economic Development Tax Increment Financing program

Source: Utah Office of the State Auditor
What state legislators can do

- Require regular evaluations of incentives, including analysis of fiscal risks.
- Put in place policies to encourage agencies to share data and monitor costs effectively.
- Ensure that any newly created incentives include adequate protections.
States regularly evaluate major incentives

- Pre-2013
- 2013
- 2014
- 2015

- WA
- OR
- AZ
- AK
- ME
- NH
- CT
- MD
- RI
- DC
- TX
- LA
- FL
- NE
- ND
- MN
- IA
- MO
- IN
- MS
- TN
- OK
- NH
- AK
- DC
- The PEW Charitable Trusts

pewtrusts.org/taxincentives
John Estus
Director of Public Affairs,
Oklahoma Office of Management &
Enterprise Services
Senator Joe Bolkcom
Iowa State Senator
## State Tax Credit Expected Claims Projection

(Dollars in Millions)

<table>
<thead>
<tr>
<th>Tax Credit Program</th>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
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<tbody>
<tr>
<td><strong>Capped Programs</strong></td>
<td></td>
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<tr>
<td>Accelerated Career Education Tax Credit</td>
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<td>Endow Iowa Tax Credit</td>
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<td>Enterprise Zone Program</td>
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<td>Enterprise Zone Program - Housing Component</td>
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<td>Film, Television, and Video Project Promotion Program - Awarded</td>
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<td>High Quality Job Program</td>
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<td>Historic Preservation and Cultural and Entertainment District Tax Credit</td>
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<td>Redevelopment Tax Credit</td>
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<td>Renewable Energy Tax Credit</td>
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<td>School Tuition Organization Tax Credit</td>
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<td>Solar Energy System Tax Credit</td>
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<td>Venture Capital Tax Credit - Innovation Fund</td>
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<td>Venture Capital Tax Credit - Iowa Fund of Funds</td>
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<td>Venture Capital Tax Credit - Qualified Bus. or Comm.-Seed Capital Fund</td>
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<td><strong>Total Capped Programs</strong></td>
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<td><strong>Uncapped Programs</strong></td>
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<td>Adoption Tax Credit</td>
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<td>Biodiesel Blended Fuel Tax Credit</td>
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<td>Charitable Conservation Contribution Tax Credit</td>
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<td>E85 Gasoline Promotion Tax Credit</td>
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<td>Early Childhood Development Tax Credit</td>
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<td>Earned Income Tax Credit</td>
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<td>Ethanol Promotion Tax Credit</td>
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<td>Farm to Food Donation Tax Credit</td>
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<td>Geothermal Heat Pump Tax Credit</td>
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<td>Iowa Industrial New Job Training Program (260S)</td>
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<td>Targeted Jobs Tax Credit from Withholding</td>
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<td>Tuition and Textbook Tax Credit</td>
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<td>-15.3</td>
<td>-15.3</td>
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<td>Volunteer Firefighter and EMS Tax Credit</td>
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<tr>
<td><strong>Total Uncapped Programs</strong></td>
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<td><strong>Tax Credit Program Total</strong></td>
<td>-290.8</td>
<td>-394.9</td>
<td>-402.5</td>
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**Notes:**

These estimates are based on the Tax Credit Expected Claims Projection published by the Department of Revenue in December 2015. The table above reflects the tax credits that are likely to be claimed in a given fiscal year based on previous experience. The projected claims are incorporated in the FY 2016 and FY 2017 REC revenue estimates. The numbers may not equal totals due to rounding.
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: Mandy Rafool
  mandy.rafool@ncsl.org

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

- Monitoring Tax Incentives Resources:

Thank you for participating!

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