2015 SENATE FINANCE AND TAXATION

SB 2057

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2057
1/14/2015
Job Number 21941

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Alice Grove

Explanation or reason for introduction of bill/resolution:

Relating to the legislative management assignment of regular legislative interim committee review of statutory provisions providing economic development tax incentives.

Minutes:

Attachment 1, 2,3, 4, 5, 6

Chairman Cook opened the hearing on SB2057.

John Walstad, **Legislative Council** appeared **(Attachment #1)** He went through the bill and elaborated on the sections of the bill.

Sen Bekkedahl -- It's interesting. I think it could do a lot of good things for us. Your subsection 2d, line 4, whether the incentive has a positive influence on business behavior or rewards business behavior that is likely to have occurred without the incentive. Will you give us the tools to manage that question?

John Walstad -- Yes, it's easy to say that we're going to figure this out. A lot of us know, in practice, that's kind of a hard call to make. Nevertheless, it's important that it's on this list so it is one of the things that the committee reviewing these things is looking at. Are we throwing money to somebody who would have been here anyway, doing exactly what they're doing?

Senator Bekkedahl -- I would submit, would it likely to have occurred without the incentive? You'll never know. If they never do the project, you don't know.

John Walstad -- You raise a good point, but there are instances where, for example, did this business move to Williston because of some incentive or because this is where the oil is?

Chairman Cook -- I can think of one incentive. It wasn't offered by the state. It was a local incentive, so it's not going to be included here, where the business that received the incentive admitted, after they received it, that they would have come without the incentive.

Senator Triplett -- You mentioned that this is about state incentives and not local incentives, but since most of the incentives that the local folks provide are authorized by state statutes, tell me how you mean that.

John Walstad -- The bill try's to break things down. There are a lot of local property tax exemptions and things that are provided by the state. Those would fall in the grey area, but the ones that are granted by action of the county or the city, those would be locally provided incentives that aren't included in this review. That doesn't mean those kinds of things wouldn't be subject to discussion. Whatever committee is looking at this will probably also be talking about those.

Senator Triplett -- If it's an incentive that is authorized by state law to be processed by local government, then those are the ones that would not be reviewed by the state legislature.

John Walstad -- Right.

Senator Cook -- We had the responsibility in the interim committee to also study local incentives. This was a big bite to bite off. This is going to be a lot of work. I could see a designated committee to do just this.

John Walstad -- During this past interim, how many tax committee studies did we have? Six or seven? Throwing this in that mix would have really made things a lot more difficult. It will be legislative management's call.

Senator Laffen -- I looked at all of these incentives when we went through this and they are all listed here. If you look at those, I think there are 25 and about 23 are either ag related or oil related. I look at that list and say: those have worked or maybe we need some incentives for whatever is next to start diversifying our state. Do you see this group being able to look beyond the ones that are already in place, but maybe also provide some direction or advice? Maybe we should be incentivizing data centers? Can we take it farther like that?

John Walstad -- I would say, yes. This is not restrictive.

Senator Dotzenrod -- These criteria that you are using on page 1 & page 2, there's 8 of them there. Did you develop these or did we get these from the Pew Organization or was taken out of a model law? I think that they are good. Where did that list come from?

John Walstad -- It came from all the things that you mentioned.

Senator Cook -- In between interim committees there was a lot of other meetings going on. Jeff Chapman, myself, and Mr. Walstad and many other of these folks that you see in the room. We have passed numerous bills to improve the economy of the State of North Dakota, and I think it is valuable that we look back and see how they are doing. If you look around the state now and see help wanted signs all over the place. There is all the evidence you need that these program worked. They did their job. Senator Laffen, you asked if you could look at other things, I would say that is a big part of this. With the meeting we had with economic development folks, diversification is probably one of the most important things facing the state right now that we need to do. I think there is a need to look at areas of the state, southeast North Dakota could possibly use some economic development. More so than other areas of the state. That is the purpose of this. It was a pleasure during this interim. It wasn't always easy. A lot of people put a lot of hard labor into this bill.

Senator Triplett -- Following up on Senator Laffen's question about could the committee to whom this is assigned expand their reach and their look, would you anticipate that this committee might also consider how these various individual incentives stack up, either positively or negatively, against the larger incentives that are not listed here, like significant reductions in corporate income taxes. Would that be part of the job?

Senator Cook -- Definitely. I think, especially, as we hear of legislation being discussed, introduced to eliminate income tax.

Jeff Chapman, PEW Charitable Research
(Attachment - Power Point Presentation #2)
Senator Bekkedahl, in terms of your question: how do you really get at the "but for" question. Would the companies have done this in absence of that, there's no way to know for sure. At PEW we're actually putting together some software tools that will help states do that. We trying to open that up and make it more clear and provide more opportunities to learn how that is working.

Senator Cook -- Jeff, you mentioned that PEW did a report on states 3 years ago. My memory is that North Dakota at the bottom. **(Attachment #3)**

Jeff Chapman -- Most states were.

Senator Cook -- It got my attention. I don't like being there. I assume that if we pass this and get it signed by the governor, we're going to move up towards the top.

Jeff Chapman -- Yes. Actually I had in my email this morning a new report, which I'm not supposed to share publicly, that doesn't come out until next week. (I will send the file to Mr. Walstad and he can share it around. **(Attachment #4)** What we're doing in this paper, reviewing the progress that has happened over the last 3 years, and at the end we highlight some of the specifics about the 10 states, plus DC, that have taken action since then. This will definitely put North Dakota on that.

Senator Triplett -- When you are sending the link on the new report to Mr. Walstad, could you also send the link to the 3 year old report that the chairman referenced so that we have that comparison. (see Attachment #3)

Senator Laffen -- I am assuming that you are an expert in economic development legislation, has the federal government ever talked about banning states from stealing companies from one another?

Jeff Chapman -- I don't think it's ever been discussed seriously at the federal level. That comes up in conversation a lot.

Senator Dotzenrod -- When you go in and do an evaluation, or take a look at a state and you find that there's an incentive from your point is not working and then there may be some powerful interest that really supports that, how do you keep from getting caught in the middle? Are you able to navigate through that?

Jeff Chapman -- To clarify, we don't actually take any position on any incentives. I think that is really the place of the state to make those types of decisions.

Senator Triplett -- This software that you are talking about, or your recommendations, would they help a state make decisions about how to phase out an incentive? Is that part of what you are thinking of doing in the software?

Jeff Chapman -- Not in the software but we actually have collected some different practices. A lot of times when states phase out of incentives, they grandfather in the companies that are already receiving it. There's lot of different way that states can do.

Senator Triplett -- We have tended to use the sunset clause a lot here with new incentives where put it on for 2 or 4 years and then it gets extended a little bit and then after a while it gets made permanent. Once they are made permanent, we don't really have a process for backing it down. Maybe that is something that we want to consider.

Chairman Cook -- I think the State of Oregon sun setted every one of their economic development plans.

Jeff Chapman -- There's a number of states that have on the books provisions that sunsets all of their incentives within some number of years. The difference in Oregon and why that has been successful in improving their program and changing what they are doing, it's not so much the sunset as it is the evaluations.

Senator Cook -- There's a shock effect there to. We had this discussion, briefly, in the interim committee and elected not to do it.

Keith Lund, Vice President of Grand Forks Region Economic Development Corporation. Here today in my capacity as President of the Economic Development Association of North Dakota. (Attachment #5)

Senator Triplett -- Would you see this process as something that could be either replicated at the local level, as counties or regions or cities choose to do so, or that at some point the legislature, if this works well, might consider adding local incentives as part of the charge. Where would you think that kind of evaluation should appropriately be?

Keith Lund -- I don't see any reason why, if in fact this process is demonstrated to be extremely valuable, that local municipalities could follow that lead.

Senator Triplett -- You mentioned that there some things that were unique about this bill that made it better than some of the others. Is it just the more in-depth involvement of some of our agencies? Is that the one thing that distinguishes it?

Jeff Chapman -- That's part of it. I would say, bigger than that, is the in-depth involvement of the legislature.

Jon Godfread, Greater North Dakota Chamber of Commerce. (Attachment #6)
We agree with everything that Mr. Lund said. We support the bill and recommend a do pass.

Chairman Cook -- Jon, I think you made an excellent point as far as another value this brings and we can defend and analyze it. Those people who seem to have a dislike for some of the incentives, it will give them their day in court to speak their peace and it will give us a chance to make sure that they understand the full nature of the incentive.

Jon Godfread -- If the incentives are not working, if they are not doing what they are supposed to, we don't need them on the books. Or, we can suggest alternatives.

Senator Dotzenrod --One of the things that struck me was that they were able to measure things that I thought were really hard to measure. I had never seen that demonstration that you could do that. I would like to have some of those examples that we heard at that Cleveland meeting. Do you have something on that order, a summary of how this has been effective?

Jeff Chapman --There are a lot of those examples in our big report from a few years ago and we've been collecting more since then.

Senator Laffen -- I really like this bill. I think it is going to be a lot of work. I don't know that it can just be added to this interim committee. Is this left to legislative management to decide whether this becomes its own standing committee? Is that good enough?

Chairman Cook -- I think so.

Senator Laffen -- Who does the legwork? The data collection that this committee would ask. Is that left to legislative management? Is that spelled out?

Chairman Cook -- I think our partners are here at the committee.

Jeff Chapman -- The hope is that this will be a very collaborative process.

Senator Triplett -- I just like to request, since we have a new committee clerk, that we have asked for them information to be provided: the two specific reports and Sen Dotzenrod's request for some specific thing that you can provide. I would specifically like them to be made part of the record of this hearing. Mr. Chapman will email things to Mr. Walstad and he will distribute them to the committee. Make sure they get to the committee clerk, also, and into the minutes as part of the record of the hearing.

Jon Godfread -- One more point: Senator Laffen's point, we are not listed in the bill but we would be happy to support this process, if this bill passes, in any shape and form.

Chairman Cook closed the hearing on SB2057.

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2057

1/20/2015
Job Number 22199 meter :35 to 1:30

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Alice Grove

Explanation or reason for introduction of bill/resolution:

Relating to the legislative management assignment of regular legislative interim committee review of statutory provisions providing economic development tax incentives

Minutes:

Chairman Cook opened the hearing on SB2057 and asked the clerk to take the roll on a do pass on SB2057

Senator Triplett moved a do pass.

Senator Unruh seconded.

Roll call vote 6-0-1.

Carrier Senator Laffen

Date: 1-20-15

Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO 2057

Senate Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description:

Recommendation: ☐ Adopt Amendment
☑ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐

Motion Made By Sen. Triplett Seconded By Sen. Unruh

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod	✓	
Vice Chairman Lonnie Laffen	AB		Senator Connie Triplett	✓	
Senator Brad Bekkedahl	✓				
Senator Dave Oehlke	✓				
Senator Jessica Unruh	✓				

Total (Yes) 6 No 0

Absent 1

Floor Assignment Sen. Laffen

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2057: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **DO PASS** (6 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2057 was placed on the Eleventh order on the calendar.

2015 HOUSE FINANCE AND TAXATION

SB 2057

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

SB 2057
3/9/2015
24502

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the legislative management assignment of regular legislative interim committee review of statutory provisions providing economic development tax incentives.

Minutes:

Attachment #1, 2

Chairman Headland: Opened hearing.

Emily Thomson, Legislative Council: Introduced bill. Neutral testimony. This bill relates to the regular evaluation of state economic development tax incentives. The interim tax committee was directed by legislative management to study state economic development tax incentives and consider whether a regular review process should be established for these incentives to ensure regular consideration of whether these incentives are still serving their intended purpose for which they were originally created. This bill was drafted to provide for this regular review. It provides for a review of each of the selective incentives every six years by an interim committee designated by legislative management. It also provides for specific factors to be taken into consideration when reviewing these incentives and provides for committee authority to recommend legislation regarding the incentives. Section one of the bill lays out the fact that legislative assembly requires analysis to assure these incentives are serving their intended purposes. During each interim the interim committee has the responsibility for making analysis of these economic development tax incentives and reporting its findings to legislative management. In subsection two it lays out the considerations that should be taken into account when evaluating these incentives. The six year revolving review requirement is in section three. There is also a list that analysis must be completed for the listed economic developments. The final page of the bill states the data the committee would need to evaluate these incentives isn't available but can be requested from the entities to provide this information. There is also a companion bill that was passed out of the house, HB 1060, which provides for sharing confidential information between the Department of Commerce, both North Dakota Job Services, and the Tax Department.

Representative Steiner: Did the committee discuss any kind of exemptions we might pass this session as a catch all and maybe put an "s" for any other exemptions granted by this legislative session? For example, gathering pipelines and if we were to include transmission lines in that.

Emily Thomson: I believe SB 2340 may address any incentives that are passed this session would also be considered within the provisions.

Representative Haak: Does this include just state economic development tax incentives or would it include local municipalities as well?

Emily Thomson: Right now this is the state economic development incentives that are being considered.

Chairman Headland: Is there any support for SB 2057?

Connie Ova, Jamestown/Stutsman Development Corporation and Economic Development Association of North Dakota: Distributed testimony in support. See attachment #1.

Laney Herauf, Greater North Dakota Chamber: Distributed testimony in support. See attachment #2.

Chairman Headland: Is there any further support? Is there any opposition? Are there any questions for the tax department? Closed the hearing.

Representative Steiner: Made a motion for a do pass.

Representative Froseth: Seconded.

Roll call vote: 13 yes 0 no 1 absent
Motion carries for a do pass.

Representative Hatlestad will carry this bill.

**Chairman Headland has requested we hold off on this bill as Senator Cook has requested some amendments.

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Fort Totten Room, State Capitol

SB 2057
3/9/2015
24509

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Mary Brucker

Explanation or reason for introduction of bill/resolution:

A bill relating to the legislative management assignment of regular legislative interim committee review of statutory provisions providing economic development tax incentives.

Minutes: Attached amendment #1

Chairman Headland: I would like to bring this bill back in order to add an amendment.

Representative Klein: Made a motion to reconsider actions of a do pass.

Vice Chairman Owens: Seconded.

Voice vote: Motion carried.

Chairman Headland: Distributed proposed amendment 15.0377.01001. See attachment #1. We'd like to add an "s" to subsection 3 of section 1 and it would say "Any economic development tax incentive created by the sixty-fourth legislative assembly."

Vice Chairman Owens: Made a motion to adopt the amendment.

Representative Haak: Seconded.

Voice vote: Motion carried.

Vice Chairman Owens: Made a motion for a do pass as amended.

Representative Dockter: Seconded.

Roll call vote: 14 yes 0 no 0 absent

Motion carried.

Representative Hatlestad will carry this bill.

15.0377.01001
Title.02000

Adopted by the Finance and Taxation Committee

March 9, 2015

SE
3/9/15

PROPOSED AMENDMENTS TO SENATE BILL NO. 2057

Page 3, after line 16, insert:

"s. Any economic development tax incentive created by the sixty-fourth legislative assembly."

Renumber accordingly

Date: 3-9-15
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2057

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description:

Recommendation:
☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions:
☐ Reconsider ☐

Motion Made By Rep. Steiner Seconded By Rep. Froseth

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND	✓		REP HAAK	✓	
VICE CHAIRMAN OWENS	✓		REP STRINDEN	✓	
REP DOCKTER	✓		REP MITSKOG	AB	
REP TOMAN	✓		REP SCHNEIDER	✓	
REP FROSETH	✓				
REP STEINER	✓				
REP HATLESTAD	✓				
REP KLEIN	✓				
REP KADING	✓				
REP TROTTIER	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Hatlestad

If the vote is on an amendment, briefly indicate intent:

Date: 3-9-15 (pm)
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2057

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: ______

Recommendation: ☒ Adopt Amendment
☐ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☒ Reconsider ☐ ______

Motion Made By Rep. Klein Seconded By Rep. Owens

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND			REP HAAK		
VICE CHAIRMAN OWENS			REP STRINDEN		
REP DOCKTER			REP MITSKOG		
REP TOMAN			REP SCHNEIDER		
REP FROSETH					
REP STEINER					
REP HATLESTAD					
REP KLEIN					
REP KADING					
REP TROTTIER					

Total (Yes) ______ No ______

Absent ______

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

Voice Vote = Motion carried.

Date: 3-9-15 (pm)
Roll Call Vote #: 2

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2057

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: add subsection 5 - any ecomic development tax incentive created by the 64th legislative assembly. (language from SB2340)

Recommendation: ☒ Adopt Amendment
☐ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ ____________

Motion Made By Rep. Owens Seconded By Rep. Haak

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND			REP HAAK		
VICE CHAIRMAN OWENS			REP STRINDEN		
REP DOCKTER			REP MITSKOG		
REP TOMAN			REP SCHNEIDER		
REP FROSETH					
REP STEINER					
REP HATLESTAD					
REP KLEIN					
REP KADING					
REP TROTTIER					

Total (Yes) ____________ No ____________

Absent ____________

Floor Assignment ____________

If the vote is on an amendment, briefly indicate intent:

Voice vote - Motion carried.

Date: 3-9-15 (pm)
Roll Call Vote #: 3

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2057

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: Add Subsection 5 - any economic development tax incentive created by the 64th legislative assembly.

Recommendation:
☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☒ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar

Other Actions: ☐ Reconsider ☐ ______

Motion Made By Rep. Owens Seconded By Rep. Dockter

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND	✓		REP HAAK	✓	
VICE CHAIRMAN OWENS	✓		REP STRINDEN	✓	
REP DOCKTER	✓		REP MITSKOG	✓	
REP TOMAN	✓		REP SCHNEIDER	✓	
REP FROSETH	✓				
REP STEINER	✓				
REP HATLESTAD	✓				
REP KLEIN	✓				
REP KADING	✓				
REP TROTTIER	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Rep. Hatlestad

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2057: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2057 was placed on the Sixth order on the calendar.

Page 3, after line 16, insert:

"s. Any economic development tax incentive created by the sixty-fourth legislative assembly."

Renumber accordingly

2015 TESTIMONY

SB 2057

SB 2057 1-14-15 #1

STATE ECONOMIC DEVELOPMENT TAX INCENTIVES AND EXEMPTIONS REVIEW STUDY

The Chairman of the Legislative Management directed the committee to study state economic development tax exemptions, including consideration of whether a regular review process should be established for state economic development tax incentives to ensure regular consideration of whether incentives are still serving the intended purpose for which they were created.

Background

Individual Income Tax Credits and Exemptions

The committee reviewed the number of claimants and amounts claimed for various individual income tax credits and exemptions during the 2012 tax year. The credits and exemptions reviewed by the committee were those having a primary goal of promoting economic development and included the research expense credit; seed capital investment credit; renaissance zone credits, including the single-family residence credit, historic property renovation credit, business purchase or expansion credit, renaissance fund organization investment credit, and nonparticipating property owner credit; agricultural commodity processing facility investment credit; biodiesel fuel blending credit for both wholesalers and retailers; internship program credit; microbusiness credit; angel fund investment credit and angel fund investment credit purchased from another taxpayer; workforce recruitment credit; manufacturing automation equipment credit; new or expanding business exemption; and the renaissance zone business exemption. Based on statistical information provided by the Tax Department, the committee found the amount claimed or deducted for these credits during the 2012 tax year amounted to $11,392,146.

Corporate Income Tax Credits and Exemptions

The committee also reviewed the number of claimants and amounts claimed for corporate income tax credits and exemptions during the 2012 tax year. The credits and exemptions reviewed by the committee included the wage and salary credit; research expense credit; seed capital investment credit; certified nonprofit development corporation credit; renaissance zone credits, including the historic property renovation credit, renaissance fund organization investment credit, and nonparticipating property owner credit; agricultural commodity processing facility investment credit; facility construction or retrofit credit for biodiesel fuel production; biodiesel fuel blending credit for both wholesalers and retailers; internship program credit; microbusiness credit; angel fund investment credit; workforce recruitment credit; facility construction or retrofit credit for soybean and canola crushing; manufacturing automation equipment credit; new or expanding business exemption; and renaissance zone business exemption. Based on statistical information provided by the Tax Department, the committee found the amount claimed or deducted for these credits during the 2012 tax year amounted to $4,964,289.

Property Tax Exemptions

The committee reviewed the policy on property tax exemptions. The committee reviewed court decisions and Attorney General opinions that establish the taxability of the value of a possessory interest in government-owned real property held by a nonexempt person if no exemption for the lessee is provided by law. The committee reviewed Section 57-02-26, providing that leased property belonging to the United States or to the state or a political subdivision is taxable to the lessee, and Section 57-24-31, providing that the tax imposed on a leasehold interest is collectable as a personal charge against the nonexempt lessee of the possessory interest.

The committee also reviewed the two exceptions to the general rule contained in Section 57-02-08 relating to the exemptions from property tax of a lessee's or owner's otherwise taxable interest in building space at a state institution of higher education. Section 57-02-08(16) provides that property owned or acquired by a corporation not organized for profit for the purpose of promoting athletic and educational uses and needs at any state educational institution is exempt from taxation. Section 57-02-08(34) provides that a building located on state-owned land and used at least in part for academic or research purposes by students and faculty of a state institution of higher education is exempt from taxation. The committee learned that neither exemption is subject to approval of the local governing body and neither exemption contains a limit on the duration for which the lessee may use the exemption.

Miscellaneous Credits and Exemptions

The committee reviewed additional miscellaneous credits and incentives, including the coal severance tax exemption for coal used in agricultural processing facilities or for beneficiation for that purpose, coal conversion tax exemption of the state's 85 percent share of the tax for a new coal conversion facility, fuel tax refunds to agricultural users reduced and the amount transferred to the ethanol production fund, oil extraction tax exemption and rate reduction incentives currently triggered off that will become effective if oil prices drop to trigger levels, oil extraction tax rate reductions for new wells drilled outside the Bakken and Three Forks Formations, sales tax exemption for manufacturing and recycling equipment, and income tax new jobs credit from withholding. The committee did not review the fiscal effect for any given year for these specified credits or exemptions.

SB 2057
#1.2
1-14-15

Testimony and Committee Deliberations

Evaluating State Tax Incentives

The committee received testimony from a representative of The Pew Charitable Trusts regarding methods the organization had employed in other states when evaluating tax incentive provisions. The committee reviewed the four main principles the organization relied on in evaluating incentives.

1. All tax incentives should be reviewed regularly according to a strategic schedule to determine if they are still meeting their intended purposes;
2. Evaluation of incentives should be based on measureable goals;
3. The costs and benefits of incentives should be measured through rigorous evaluation; and
4. Evidence should be used to inform policy choices.

Information was also received regarding the organization's experiences with working with other states in evaluating tax incentives.

The committee arranged a panel discussion comprised of representatives from the City of Bismarck, The Pew Charitable Trusts, the Economic Development Association of North Dakota, and the Department of Commerce. A member of the panel suggested three items be considered when evaluating incentives. The first item concerns transparency. Information should be available to the public regarding who is receiving incentives. The second item involves accountability. Recipients of incentives should account for any results that were promised when the incentive was originally sought. The third item involves measuring and evaluating the effectiveness of the incentives which can sometimes be difficult due to the confidential nature of many tax documents. It was suggested that consideration be given to making incentives contingent upon the applicant waiving confidentiality to the extent necessary for evaluating the incentive for which the applicant is applying. Committee members agreed that existing confidentiality provisions could be a barrier to properly evaluating the effectiveness of some incentives.

The committee considered a bill draft to provide for the sharing of confidential information by Job Service North Dakota and the Tax Department for purposes of providing information to the Department of Commerce for evaluating tax incentives. After taking into consideration concerns expressed by representatives of the Tax Department and Job Service North Dakota, the bill draft was revised to provide for restrictions on any further disclosure of confidential information by the Department of Commerce.

The committee also took into consideration the benefit of business incentives in light of North Dakota's changing economy. A committee member expressed the opinion that many incentives were created at a time when the state was seeking to create jobs. This need may not be as prevalent in light of North Dakota's current economic climate. The committee received information on the various tax incentives available for businesses. The committee thought it would be beneficial to evaluate how successful these incentives were at attracting new businesses to the state.

The committee reviewed the angel fund investment tax credit program that was developed for the purpose of attracting investments and encouraging small business development. The committee received a report from a representative of the Tax Department, pursuant to Section 2 of Session Law Chapter 461 (2011), regarding the number of in-state and out-of-state investors, amount of investment, and amount of tax credits accrued, claimed, and transferred by each individual angel fund. The report indicated that from 2007-10, angel fund investments were just shy of $4 million. After 2010, investments had risen to $27 million and tax credits earned had exceeded $10 million. The committee was informed the law does not mandate that angel funds invest in North Dakota businesses.

The committee also received a report from a representative of the Tax Department, pursuant to Section 5 of Session Law Chapter 562 (2009), regarding the findings and recommendations of the commissioner's cost-benefit analysis during the 2009-11 and 2011-13 bienniums of the coal severance tax exemption for coal used in certain plants. The report detailed the total number of exempt tons, taxable tons, and severed tons. The report indicated that only a very small percentage, about one-half of 1 percent, of coal mined in the state qualified for the beneficiated coal exemption.

The committee received testimony from a member of the Grand Forks City Council raising concerns about property tax exemptions granted to private businesses operating in incubator status in facilities on state land. The main concerns expressed were the lack of local control over the state-granted exemptions and the duration for which these businesses could continue to be exempt from property tax. The committee considered a bill draft that would have limited a tax exemption for leasehold interests in certain buildings on university campuses to three taxable years unless the governing body of the city or county chose to extend the exemption for an additional three taxable years.

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A representative of NDSU Research and Technology Park testified in opposition of the bill draft and was of the opinion that the law effective as it is. Testimony indicated that the average length of time a business remained in an incubator facility was only three to four years. A representative of a Bismarck Business Incubator also expressed a preference to leave the law as it currently stands. Testimony also indicated that the Grand Forks legislative committee was also opposed to the bill draft and preferred the incentive simply be recommended for further study.

The committee considered an alternate version of the bill draft that would have linked the duration of a tenant's occupation in an incubator facility to the success of the tenant's business. The bill draft linked the expiration of the tenant's property tax exemption to the volume of sales achieved by the tenant, rather than on the duration the tenant occupied the facility. After receiving additional information regarding the relatively small size of many businesses located in incubator facilities, committee members determined linking duration of occupancy to volume of sales may not produce the limiting effect that was intended. The committee determined the topic may be better addressed within the context of a broader economic incentives review than in a stand-alone bill draft.

A representative of the Economic Development Association of North Dakota testified in support of periodic reviews of incentives. However, review of incentives through the use of sunsetting provisions was not favored. A member of the committee recommended reviewing those incentives that are no longer in use or not accomplishing their intended purpose for possible elimination. The committee agreed that improved methods should be developed for evaluation of incentives. The committee was also in agreement that some programs may need to be tailored to fit different areas of the state. Committee members suggested evaluating the benefit received by the entire community and whether incentives were actually encouraging individuals to do something they would not otherwise do.

The committee considered a bill draft to provide for regular review and evaluation of state economic development tax incentives. The bill draft requires the Legislative Management to designate an interim committee each interim to conduct reviews of those incentives specifically listed in the bill. The interim committee would designate the incentives to be reviewed during the current interim and establish a schedule to review the remaining incentives, assuring each incentive was reviewed within a six-year cycle. The bill draft provides a list of considerations the interim committee must apply when reviewing each incentive. The interim committee could recommend legislation regarding incentives, including legislation to add additional incentives to the list to be reviewed and to allow for access to better information for the purposes of evaluating incentives.

Recommendations

The committee recommends House Bill No. 1060 to provide for the sharing of confidential information with the Department of Commerce by Job Service North Dakota and the Tax Department for purposes of providing information to the Department of Commerce for evaluating tax incentives. The bill provides for safeguards in restricting the use and disclosure of that information by the Department of Commerce.

The committee recommends Senate Bill No. 2057 to provide for regular review and evaluation of state economic development tax incentives. The bill provides for review of each of the selected incentives every six years by an interim committee designated by the Legislative Management. The bill also provides for specific factors to be taken into consideration when reviewing incentives and for committee authority to recommend legislation regarding incentives.

LOCAL ECONOMIC DEVELOPMENT TAX INCENTIVES AND EXEMPTIONS STUDY

Section 2 of Senate Bill No. 2314 (2013) directed the committee to study methods to assure that an accurate and reliable means is developed to measure effectiveness and accountability of property tax exemptions and other economic development incentives granted by cities and counties and to determine whether other taxpayers in the city or county ultimately derive a measurable benefit from granting of the incentives.

Background

In conducting its study, the committee reviewed various tax exemptions cities and counties have discretionary authority to provide, including property tax exemptions for new or expanding businesses, early childhood services property, improvements to property, pollution abatement improvements, new single-family residential or townhouse or condominium property, builder-owned property, renaissance zone property, and tax increment financing (TIF) district property.

Business Exemptions

In 1969 the Legislative Assembly created Chapter 40-57.1 to provide cities, for property inside city limits, and counties, for property outside city limits, an economic development tool. The primary economic development tool in Chapter 40-57.1 is authority of cities or counties to grant partial or complete property tax exemptions or the option to make payments in lieu of taxes for a limited period of time after negotiation with a potential project operator. The chapter also allows a project to receive an exemption from state income taxes for up to five years if approved by the State Board of Equalization.

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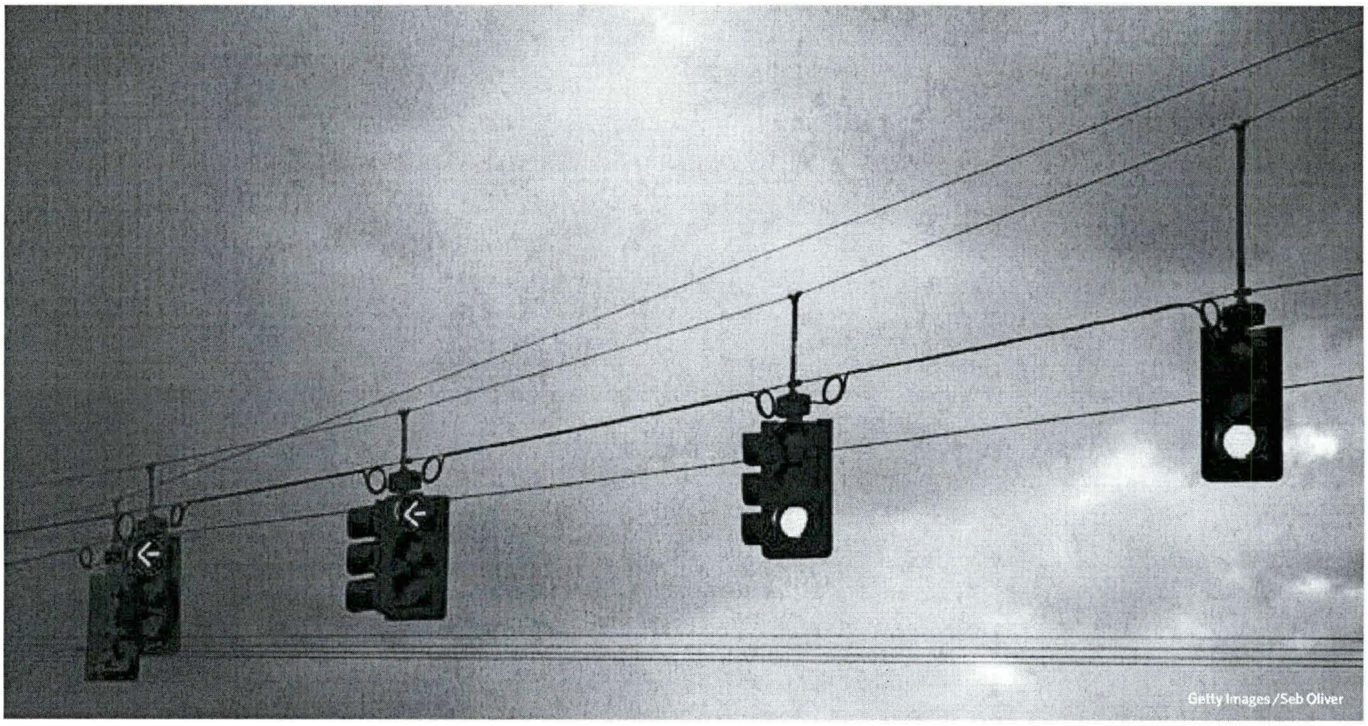

Getty Images/Seb Oliver

Tax Incentive Programs

Evaluate today, improve tomorrow

Overview

From 2012 to 2014, 10 states and the District of Columbia passed laws that will require regular evaluation of economic development tax incentives or will improve existing evaluation processes. These laws stand to provide lawmakers with hard evidence on the outcomes of their incentives, information they can use to shape policies that obtain the best possible results for the states' taxpayers and economies. (See Appendix for more details on these laws.) A number of additional states are considering similar actions.

This report advises states on how to design and implement these laws, so that tax incentives are evaluated regularly and rigorously and so that lawmakers can use the findings to improve economic development policy. Building on the best practices developed in the 11 jurisdictions and elsewhere, the recommendations focus on three steps states should take to improve the accountability and performance of their tax incentives:

1. **Make a plan:** Determine who will evaluate, when, and how.
2. **Measure the impact:** Assess the results for the state's economy and budget.
3. **Inform policy choices:** Build evaluation into policy and budget deliberations.

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Make a plan: Determine who will evaluate tax incentives, when, and how

Ensure that incentives are regularly and rigorously reviewed

Determining how frequently tax incentives should be evaluated involves striking a balance: Programs need to be studied often enough to provide policymakers with up-to-date information, but analysts need adequate time to produce thorough, detailed studies.

Most states with tax incentive review processes have adopted schedules to study different groups of incentives each year, rather than attempting to cover all programs at once. This approach allows states to leverage their existing resources for ongoing and regular evaluations, providing a balanced workload for analysts. It also lets lawmakers focus on a select set of programs each legislative session. In most states—including Connecticut, Florida, Indiana, Maryland, Mississippi, and Rhode Island—all incentives are reviewed at least once every three to five years. Some states have adopted longer cycles; Alaska conducts evaluations every six years and Washington every 10 because, in addition to incentives for economic development, they review a broad array of other tax exemptions, deductions, and credits.[1]

Table 1

Incentive Evaluation Processes in Select States

Policymakers tailor the length of the review cycle to the scope of the evaluation process

State	Scope of evaluation process	Years in review cycle
Rhode Island	Economic development tax incentives	3
Florida	Economic development incentives, including tax and cash programs	3
Oregon	Tax credits, including economic development incentives and other programs	6
Washington	Tax preferences, including economic development incentives and other credits, exemptions, and deductions	10

Source: Pew research

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Establish a strategic schedule

Concurrently reviewing tax incentives with similar goals can help evaluators compare the results of various programs and identify which provide the greatest return on investment. This approach also enables policymakers to study whether incentives with similar goals are being coordinated effectively.

Oregon's process reviews similar tax credits in the same year, placing those designed to promote education in one evaluation group, for example, and those created to further economic development in another.[2] Likewise, under a 2014 law, Alaska will evaluate incentives in groups based on which agency administers the programs.[3]

Where incentives have statutory expirations, or "sunsets," states should coordinate their evaluation schedules with those dates. Sunsets for tax incentives give policymakers a chance to decide whether programs should be extended, altered, or allowed to end. Evaluations can help lawmakers with these decisions. Oregon—which in 2009 placed sunsets on virtually all of its tax credits—schedules evaluations to finish in the months before each incentive is set to expire.[4] Washington and Maryland have also tried to synchronize their evaluation schedules with sunsets.[5]

> Evaluating tax incentives takes cooperation among multiple state offices or agencies.

Assign responsibilities for evaluation

Evaluating tax incentives takes cooperation among multiple state offices or agencies. For example, under a 2013 Florida law, two legislative staff offices use their distinct skills to review programs together. The Office of Economic and Demographic Research—with its background in economic analysis—studies the effects of incentives on job creation, revenue, and a variety of other useful indicators. The Office of Program Policy Analysis and Government Accountability, which specializes in examining the details of government initiatives, provides recommendations on how state agencies can administer incentives more effectively.

Alaska divides responsibilities for its evaluation process through a collaboration between the legislative and executive branches. The Department of Revenue works with other state agencies to report basic information on each incentive, including a description of the program, its goals, and its cost. Nonpartisan analysts in the Legislative Finance Division use that information to assess whether programs achieved their goals and to make policy recommendations.

Several states have had success working with experts outside of government to evaluate tax incentives, by contracting with academic or private sector economists. This approach can help states supplement the knowledge and skills of their employees, leading to more rigorous evaluations. Under a 2014 law, Mississippi's incentives will be evaluated on a four-year cycle by the University Research Center, an office within the state's higher education system that regularly conducts economic analyses for state government.[6]

Identify clear, measurable goals for each incentive

States often create tax incentives without clear goals. It is difficult to assess success when policymakers are unsure what the incentives are intended to achieve.

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To resolve this issue, a 2013 Vermont law set up a process to draft proposed goals for each of the state's existing tax credits, exemptions, and deductions.[7] To do so, legislative staff studied the statutory description of the incentives and available legislative records. The following year, lawmakers adopted goals for each program based on this research.[8] Similarly, Nebraska approved in 2014 a law clarifying the purposes of its key tax incentives.[9]

Because a state's economic goals and strategies change over time, an evaluation process can provide an opportunity to revisit and refine the aims of incentives according to the latest state priorities. Rhode Island's law requiring regular evaluation of major economic development tax incentives includes a provision encouraging the evaluators to point out cases in which clearer goals would have made it easier to assess success.[10] The idea is to prompt lawmakers to revise the goals, allowing future evaluations to draw more definitive conclusions. Indiana included a similar provision in its 2014 evaluation law.[11]

Access reliable and relevant data

States are more likely to be able to rigorously measure the results of tax incentives when agencies share data effectively. For example, the Iowa Department of Revenue and agencies that award tax credits, such as the state's Economic Development Authority, have worked together to track when the state awards credits and when companies claim them on their tax returns.[12] Thanks to this effort, Iowa has better estimates of how much tax credits cost and has been able to perform more thorough analyses of its incentives.[13]

One challenge states face is providing detailed data to evaluators while ensuring that sensitive company-specific information remains private. For example, tax-collecting agencies are often statutorily forbidden from sharing tax return data, even with other state agencies. However, states have had success in creating exceptions to these restrictions while balancing confidentiality concerns. A case in point is Louisiana, where state law establishes a set of rules under which the economic development department may obtain and analyze company-specific data gathered by other agencies, including tax data from the state Department of Revenue.[14]

Often, states collect valuable information directly from the companies benefitting from incentives. For instance, data provided by film production companies in Massachusetts helped the Department of Revenue conduct a rigorous evaluation of the state's film tax credits. The study depended on knowing how much of the productions' spending went toward salaries for actors and directors—many of whom live out of state—as opposed to in-state residents and businesses. By distinguishing between these different types of employees, the data supplied by the production companies allowed evaluators to estimate how much economic activity the films generated for Massachusetts.[15]

Ensure that future incentives will be evaluated effectively

When states set up processes for regular evaluation, they typically require that incentives created in future years will also be studied. For example, Rhode Island evaluates existing tax incentives at least once every three years. Any new programs the state enacts are evaluated within five years of going into effect—to give them time to work before the state measures their results—and then subsequently every three years.[16]

States have also put in place policies designed to make sure that analysts will be able to successfully evaluate new incentives in the future. Several states, including Arizona, Colorado, New Mexico, and Vermont, require bills creating new tax incentives to define their goals in order to avoid any confusion about legislative intent when the programs are reviewed later.[17]

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In 2013, Washington enacted a law requiring that proposed tax incentives include a "performance statement" designed to help the state's Joint Legislative Audit and Review Committee—which evaluates incentives on a 10-year schedule—determine whether the programs in question succeeded. Each statement documents the purpose of the tax incentive, how the state will know whether the program accomplished its goal, and what data evaluators will need to conduct the review.[18]

States have analyzed the effects of tax incentives on employment, wages, economic growth, tax revenue, and dozens of other measures.

Measure the impact: Assess results for the state's economy and budget

Select metrics to determine how well incentives are working

There is no single best metric for assessing the results of economic development programs. States have analyzed the effects of tax incentives on employment, wages, economic growth, tax revenue, and dozens of other measures, and they should consider which of these metrics would best help determine whether a given program is achieving its objectives.

Because Minnesota's Job Opportunity Building Zones program was designed to help economically troubled communities, the legislative auditor prepared an evaluation of the program that assessed whether it had been effectively targeted to areas in need. The report's authors determined each community's level of distress based on measures such as unemployment and poverty rates. They concluded that more prosperous areas were just as likely to receive benefits as the struggling places the incentive was designed to help.[19]

Although tax incentives provide benefits to businesses, they do so with the intent of helping people find jobs, increase their earnings, and become more economically secure.

Many evaluations study how incentives affect businesses, estimating the effects on companies' investment and expansion decisions. But although tax incentives provide benefits to businesses, they do so with the intent of helping people find jobs, increase their earnings, and become more economically secure. Therefore, evaluators should also select metrics that will show how incentives are affecting state residents. In Maryland, an evaluation of the state's Enterprise Zone program showed that many residents of the distressed areas whom the incentive was supposed to help were probably not benefitting from it. The study looked at the level of educational attainment of zone residents compared with that required by employers in the zones and found that many residents lacked the necessary skills. The report suggested coordinating the incentive more closely with state workforce training programs to help more of the target population benefit.[20]

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Develop a reasonable timeframe for analysis

Some incentives provide benefits only after a company has met job creation or investment requirements. Others make incentives available upfront, even though the economic benefits will not materialize until later. To judge effectiveness, therefore, states need to study programs over a long enough period to adequately gauge their costs and benefits.

A 2014 evaluation of Massachusetts' film tax credit addressed this issue by measuring the program's cost per job since its creation in 2006. This approach helped smooth out changes in the tax credit's results from year to year that related to the timing of costs and benefits. For example, film production companies could only claim the benefits after they had created the jobs, so the program had an artificially low cost per job in the first year. On the other hand, it had an artificially high cost per job in 2010 because few movies were filmed in Massachusetts that year, but the state was still paying for credits earned in earlier years.[21]

Consider cause and effect

Tax incentives can provide economic benefits to states only to the extent that they change business behavior, such as by encouraging companies to create jobs or make investments they would not otherwise have made. Therefore, high-quality evaluations estimate the degree to which incentives spurred changes as opposed to rewarding what businesses would have done anyway.

One way states have done this is to study how large an incentive is in the context of a business' overall costs. For example, an incentive that reduces a company's costs by 10 percent is more likely to spur action than one that lowers them by 1 percent. An Oregon study of tax credits for renewable energy projects, such as wind and solar farms, determined the circumstances in which the incentives were substantial enough to change financially untenable projects into viable ones. The study found that smaller projects depended on the incentives more for their success, while some larger projects were likely to be built without them.[22] As a result, Oregon lawmakers modified the state's renewable energy incentives to focus on smaller-scale projects.[23]

Similarly, a 2014 Minnesota evaluation of a tax credit for angel investors—qualified individuals and investment funds that provide financing to small businesses—pointed out that some of the individuals receiving benefits had personal stakes in the companies in which they invested.[24] It concluded that these "inside investors"—often executives or board members—were less likely to need the incentives to encourage them to invest than were venture capitalists not affiliated with the companies. At the same time, the evaluation concluded that the incentive was a cost-effective option compared with alternative strategies for growing the state's economy. In response, the Legislature expanded the program but limited the ability of inside investors to participate.[25]

Estimate net effects

The impact of incentives is not confined to the companies that receive them and their employees. High-quality evaluations measure the net effect of incentives on the state economy by examining the positive or negative effects of incentives for other businesses and individuals.

An evaluation of Louisiana's Enterprise Zone used academic research on economic development to identify ways to reduce negative effects of the program on other state businesses. This research indicated that in certain economic sectors—retail, restaurants, hotels, and health care—many of the jobs for which companies received incentives were likely to have come at the expense of existing Louisiana jobs in those same sectors, negating much of the incentives' positive effects. The research also showed that these negative effects were far less likely

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Table 2

Measuring the Effects of Tax Incentive Trade-Offs in North Carolina

Job creation from the state's film tax credit compared with an alternative policy

55-70	Jobs created via film tax credit
370-450	Jobs created via general business tax reduction

Source: North Carolina General Assembly Fiscal Research Division

to occur in other sectors, such as manufacturing.[26] Subsequently, the Legislature limited eligibility for the program to direct more of the incentives to those sectors in which the net benefit for the state would be greatest.[27]

Compare the results with other economic development strategies

Like all state budget decisions, offering tax incentives involves a trade-off: A dollar used by a state on an incentive is a dollar that cannot go to other economic development programs, state services, or broad-based tax cuts. To accurately analyze the results of tax incentives, states must consider the economic effects of these trade-offs. One way to do so is to compare the effectiveness of tax incentives with that of alternative economic development strategies the state is pursuing or might pursue to achieve the same goal.

A study by legislative staff of North Carolina's film tax credit shows how significant this consideration is in measuring the results of incentives. According to the evaluation, the state's $30 million in film incentives created between 55 and 70 jobs in 2011. However, the report also found that an equally large cut in business tax rates would have had a bigger economic impact, yielding between 370 and 450 jobs.[28]

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Inform decisions: Build program evaluations into policy and budget deliberations

Identify opportunities for improvement

High-quality evaluations go beyond simple yes-or-no verdicts on tax incentives and instead offer concrete recommendations for improving results. When an incentive is effective, means for obtaining better outcomes may still exist. When an incentive is not working well, the best approach might be to change it rather than eliminate it.

A review of Louisiana's Quality Jobs program pointed out several ways in which it risked encouraging the creation of low-quality jobs. For instance, the rules governing the tax credit did not ensure that employers who claimed it would provide employees with the level of health insurance policymakers had intended. In response, the state's economic development agency updated the rules to require companies to offer better coverage and to provide it for new employees within 90 days.[29]

Evaluations can also point out how incentives can work better for businesses. In Ohio, one of the state's key incentive programs required local governments to provide matching funds in order for companies to qualify. A 2009 evaluation found that the incentives were generally working well but that these local matches cost businesses more in transaction costs than they were worth while also placing a financial strain on local governments.[30] Based on the report's recommendation, lawmakers eliminated the local match requirement.[31]

Encourage lawmakers to regularly review incentives

One way states have ensured that policymakers consider the results of evaluations is to hold committee hearings in which key legislators can discuss the finding with the analysts who conducted the research. Several states, including Arizona, Iowa, Indiana, Maryland, Mississippi, and Washington, use this approach.[32] In addition, committees often use the hearings to receive input from taxpayers, businesses, and other stakeholders. Many of the panels also make policy recommendations, using what they have learned from the evaluations and testimony to provide guidance to the full Legislature.

A 2013 Rhode Island law connects the evaluations directly to the state's budget process. The governor's budget proposal must include recommendations on whether to continue, change, or end each incentive evaluated during the past year. Legislators then hold hearings on the recommendations, allowing lawmakers to consider tax incentives alongside other spending priorities.[33]

States have also placed statutory expiration dates, or sunsets, on tax incentives to encourage lawmakers to regularly review results. In Oregon, for example, most tax credits expire every six years unless lawmakers renew them.[34] This approach has led policymakers to identify and use information about the effectiveness of incentives as they debate whether the programs should be extended, altered, or allowed to expire. In 2011, the Oregon Legislature tasked the newly created Joint Committee on Tax Credits with reviewing and proposing changes to 18 expiring credits. The committee requested evaluations of the programs and held hearings to review the evidence and receive testimony from important stakeholders.

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Ultimately, based on the committee's recommendation, the Legislature allowed some little-used credits to expire while it extended or redesigned others, including a tax credit for renewable energy projects, such as wind and solar farms, which had grown far more expensive than anticipated.[35] Lawmakers revised the program in 2011 to focus on smaller-scale projects,[36] after an evaluation found that the tax credit was less likely to influence whether larger-scale projects were built.[37] In addition to increasing the program's cost-effectiveness, the changes were expected to save Oregon $20 million over the next two years and hundreds of millions of dollars after that period.[38]

Table 3

Sunsets Spur Review of Incentives' Results

Oregon lawmakers' decisions on 18 tax credits scheduled to expire, 2011

4	Number of credits renewed without changes
5	Number of credits redesigned and renewed
9	Number of credits allowed to expire

Source: Joint Committee on Tax Credits, Oregon Legislature

Conclusion

Policymakers want tax incentives to provide the best possible outcomes for states' economies and budgets. For that reason, measuring the results of these programs is critical. Doing so involves three steps: creating an evaluation plan, measuring incentives' impact, and connecting the results to the policymaking process. When states have taken these actions, they have been able to identify what is working and what is not. Then, lawmakers have succeeded in using that information to improve the effectiveness of their incentives. In this way, regular, rigorous, policy-relevant evaluations of tax incentives stand to make states more economically prosperous and fiscally sound, to the benefit of businesses, workers, and taxpayers.

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Appendix

From 2012 to 2014, 10 states and the District of Columbia passed laws that will require regular evaluation of economic development tax incentives or will improve existing evaluation processes. These laws are described below.

Alaska
H.B. 306, enacted July 7, 2014

What it does	
Evaluations for all tax incentives	Nonpartisan legislative staff reviews all tax credits, exemptions, and deductions on a six-year cycle. The review schedule is organized so that every incentive that a state agency administers is evaluated in the same year, allowing lawmakers to compare the results of similar programs.
Reports draw policy-relevant conclusions	The Department of Revenue documents the costs and goals of each tax expenditure to help the legislative staff assess how well the programs are working. The evaluations determine whether incentives are achieving their goals and offer recommendations on whether they should be continued, modified, or ended.

Florida
H.B. 7007, enacted May 17, 2013

What it does	
Evaluations of tax incentives	Economic development incentive programs are reviewed on a three-year cycle. Two legislative offices, one with expertise at program evaluation and one with expertise measuring economic results, conduct evaluations.
Information sharing	State agencies are instructed to provide data as needed to legislative staff members who evaluate programs. When provided with tax data, legislative staff must follow existing confidentiality requirements.

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Indiana
H.B. 1020, enacted March 25, 2014

What it does	
Evaluations for all tax incentives	An evaluation of each tax incentive is required every five years. Nonpartisan legislative staff—with experience studying incentives—is responsible for the evaluations.
Connects reviews to policymaking	A legislative commission is assigned to oversee evaluations. The commission holds public hearings and makes recommendations to the General Assembly on programs up for review.

Louisiana
H.B. 316, enacted June 10, 2013

What it does	
Evaluations for all tax incentives	State agencies report annually on tax incentives. The reports identify incentives' intended purpose, beneficiaries, and unintended consequences.
Connects reviews to policymaking	House and Senate committees hold hearings on the evaluations every other year, ensuring that lawmakers regularly discuss the results. The committees review any incentive that resulted in lost revenue in the previous three fiscal years and may provide recommendations to the Legislature.

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Maryland
H.B. 764, enacted May 22, 2012

What it does	
Evaluations of tax incentives	For specified tax incentives, nonpartisan legislative staff members identify the programs' goals and assess whether they are being achieved. For incentives with sunset dates, reviews are timed to take place before the programs' expiration to allow policymakers to use the reports to make decisions.
Connects reviews to policymaking	For each tax credit up for review, legislative leaders appoint an evaluation committee with lawmakers from relevant House and Senate committees. The evaluation committee holds public hearings to discuss the reports. The committee is responsible for recommending whether incentives should be continued, modified, or ended.

Mississippi
H.B. 1365, enacted April 23, 2014

What it does	
Evaluations for all tax incentives	The University Research Center, an office led by the state economist, studies all economic development tax incentives at least once every four years. New tax incentives are evaluated within five years of enactment. The reviews examine the goals of the programs, the number of jobs created, and how much revenue the state is forgoing.
Information sharing	State agencies are instructed to provide information to the center as needed to complete the review. University Research Center analysts follow a confidentiality agreement specified in statute. If a thorough review isn't possible, the evaluators recommend how to improve data gathering.

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New Hampshire
H.B. 1531, enacted May 23, 2014

What it does	
Establishes a legislative committee	A bicameral committee of lawmakers known as the Joint Committee on Tax Expenditure Review considers tax credits and exemptions.
	The committee defines what qualifies as a tax expenditure.
Legislative review of tax incentives	The committee studies tax incentives and other tax expenditures on a five-year cycle.
	For each reviewed incentive, the committee may make policy recommendations.

Oregon
H.B. 2002, enacted July 29, 2013

What it does	
Strengthens evaluation standards	Tax incentive evaluations are standardized, with nonpartisan legislative staff responsible for each study.
	The reviews must include the purpose, beneficiaries, and effectiveness of the incentive.
Coordinates reviews with sunset dates	Evaluations are scheduled for completion before expiration dates.
	Policymakers have useful, up-to-date information to help them decide whether to extend or alter an incentive or let it expire.

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Rhode Island
S. 734, enacted July 11, 2013

What it does	
Evaluations for all tax incentives	Department of Revenue economists study existing tax incentives on a rotating three-year cycle, with new incentives reviewed within five years of creation.
	The evaluations include both fiscal and economic results.
	The reports note whether changes to data gathering or clarification of legislative intent could improve future evaluations.
Connects reviews to policymaking	The governor's budget proposal includes policy recommendations on each incentive that has been evaluated in the past year.
	Legislators hold hearings on the recommendations, allowing lawmakers to consider tax incentives alongside other state spending priorities.

Washington
S.B. 5882, enacted June 30, 2013

What it does	
Sunsets for new tax incentives	New tax incentives expire 10 years after their effective dates unless extended by lawmakers.
	The state's long-standing evaluation process, led by legislative audit staff, helps policymakers decide whether to extend incentives when they reach their sunset dates.
Clarifies goals to improve evaluation	New tax incentives must include detailed "performance statements" identifying goals and metrics.
	The performance statements include plans for gathering the data needed to evaluate incentives.

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Washington, DC

B20-750, passed by the district council June 24, 2014, awaiting congressional approval

What it does	
Evaluations for all tax incentives	The chief financial officer reviews tax incentives and other types of tax credits, exemptions, and deductions on a five-year cycle. The reports include policy recommendations and evaluate whether credits, exemptions, and deductions meet their intended goals. The analysis of economic development tax incentives includes an additional requirement to measure economic impact.
Economic analysis	The reports assess whether economic growth would have occurred without the incentive. The analysis examines whether the economic benefits of incentives were offset by negative effects on other businesses.

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Endnotes

1 General Statutes of Connecticut § Chapter 578, Section 32-1r; Chapter 2013-42, Laws of Florida; Indiana Code § 2-5-3.2 (Indiana General Assembly 2014) (signed March 25, 2014); Code of Maryland Tax - General Article § 1-301-311 (General Assembly of Maryland 2014); Mississippi House Bill 1365, Regular Session (2014); State of Rhode Island General Laws § Section 44-48.2-2 (State of Rhode Island General Assembly 2014); Alaska House Bill 306, 28th Alaska Legislature (2014); Revised Code of Washington § Chapter 43.136 (Washington State Legislature 2014).

2 The Pew Charitable Trusts, *Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth* (April 12, 2012), http://www.pewtrusts.org/en/research-and-analysis/reports/2012/04/12/evidence-counts-evaluating-state-tax-incentives-for-jobs-and-growth.

3 Alaska House Bill 306, 28th Alaska Legislature (2014).

4 Oregon House Bill 2067, Regular Session (2009); Oregon House Bill 2002, Regular Session (2013).

5 Code of Maryland Tax - General Article § 1-301-311 (General Assembly of Maryland 2014); Revised Code of Washington § Chapter 43.136.065 (Washington State Legislature 2014).

6 Mississippi House Bill 1365, Regular Session (2014).

7 Vermont Statutes Annotated § Title 32, Chapter 5, Section 312 (Vermont Statutes Online 2014).

8 Vermont Senate Bill 221, 2013-2014 Legislative Session (2014).

9 Nebraska Legislative Bill 836, 103rd Legislature - Second Session (2014).

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11 Indiana Code § 2-5-3.2.1 (c) 10 (Indiana General Assembly 2014) (signed March 25, 2014).

12 Iowa Department of Revenue, "Tax Credits Tracking and Analysis System," accessed Nov. 17, 2014, https://tax.iowa.gov/tax-credits-tracking-and-analysis-system.

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14 Louisiana Revised Statutes § Title 47, Section 1508 (Louisiana State Legislature 2014); Louisiana Revised Statutes § Title 51, Section 936 (Louisiana State Legislature 2014).

15 Amy Pitter, Massachusetts Commissioner of Revenue, "Report on the Impact of Massachusetts Film Industry Tax Incentives Through Calendar Year 2012," Commonwealth of Massachusetts Department of Revenue (Sept. 16, 2014), http://www.mass.gov/dor/docs/dor/news/reportcalendaryear2012.pdf.

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THE PEW
CENTER ON THE STATES

Evidence Counts

Evaluating State Tax Incentives for Jobs and Growth

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APRIL 2012

The Pew Center on the States is a division of The Pew Charitable Trusts that identifies and advances effective solutions to critical issues facing states. Pew is a nonprofit organization that applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

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Dear Reader:

In the wake of the Great Recession, states have to do more with less—so every dollar counts. Lawmakers are looking to get their fiscal houses in order, deliver critical services more effectively and at a lower cost, and invest where the proven returns are greatest, in areas that will generate dividends over the short and long term. The Pew Center on the States works on a range of important issues to help them do just that.

States spend billions of dollars annually on tax incentives for economic development, offering businesses credits, exemptions, and deductions to locate, hire, expand and invest within their borders. But this report, *Evidence Counts*, finds that half the states have not taken basic steps to produce and connect policy makers with good evidence of whether these tools deliver a strong return on taxpayer dollars. This knowledge gap is particularly worrisome at a time of tight budgets and sluggish economic growth. If policy makers do not base their decisions about tax incentives on good information, they could be spending scarce resources unwisely. On the other hand, if they do not use these incentives or use them well, they could be missing out on opportunities to create jobs and attract new businesses.

This report builds on Pew's efforts to provide decision-makers with important information about both the fiscal challenges they face and data-driven policy options. We hope this work will inform and guide state leaders as they chart a path toward recovery today and sustainability tomorrow.

Sincerely,

Susan Urahn
Managing Director, Pew Center on the States

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Executive Summary

In their quest to strengthen their economies, particularly in the wake of the Great Recession, states continue to rely heavily on tax incentives, including credits, exemptions, and deductions, to encourage businesses to locate, hire, expand, and invest within their borders. Yet half the states have not taken basic steps to produce and connect policy makers with good evidence of whether these tools deliver a strong return on taxpayer dollars.

Research by the Pew Center on the States concludes 13 states are leading the way in generating much-needed answers about tax incentives' effectiveness. Twelve states have mixed results. The other 25 states, along with Washington, D.C., are trailing behind.

Although no one knows the total, policy makers spend billions of dollars annually on tax incentives for economic development, and use of these investments appears to have grown substantially since the 1970s. Today, every state has at least one tax incentive program, and most have at least several. Frequently, they are used as part of a bidding war between states over firms seeking to relocate or expand. If one state offers a tax credit, others often feel compelled to match it or risk being left behind.

But no state regularly and rigorously tests whether those investments are working and ensures lawmakers consider this information when deciding whether to use them, how much to spend, and who should get them. Often, states that have conducted rigorous evaluations of some incentives virtually ignore others or assess them infrequently. Other states regularly examine these investments, but not thoroughly enough.

The good news is that a wealth of promising approaches exists for lawmakers to emulate.

Evaluations are most valuable when they improve policy choices. Some states are leaders because of the scope of their assessments: They have reviewed all major tax incentives and have taken steps to integrate the results into policy and budget deliberations. Oregon, for example, gives its incentives expiration dates, or "sunsets," which force lawmakers

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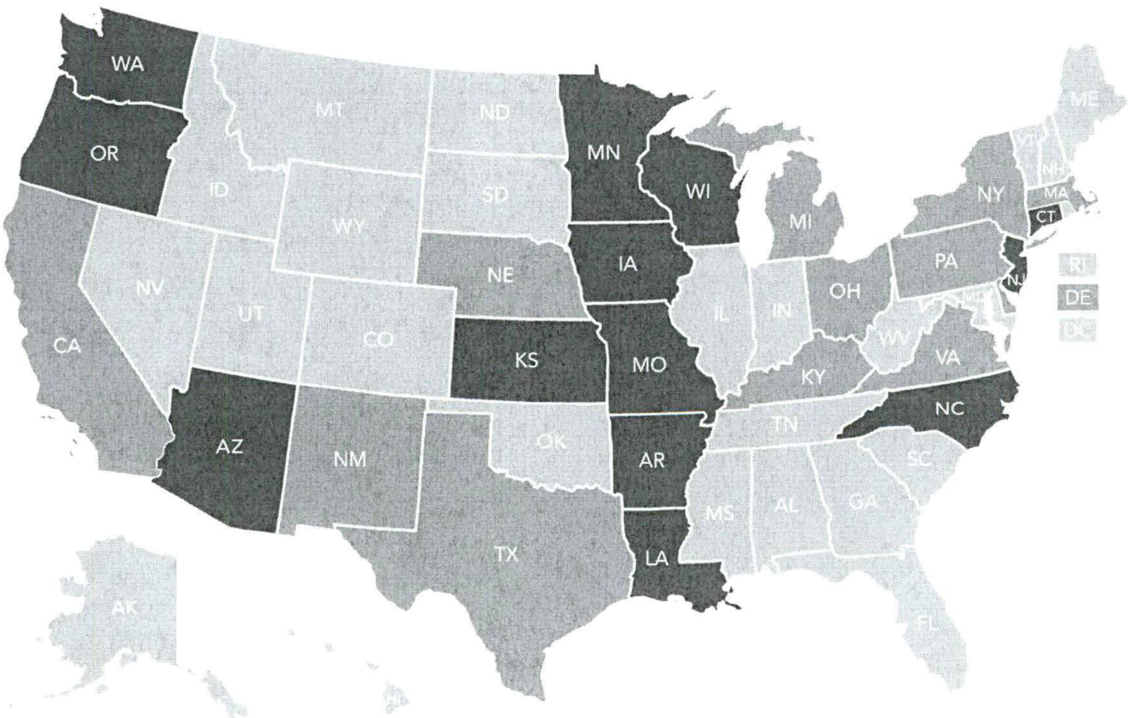
Overall: How are states doing?

13 Leading the way	12 Mixed results	26 Trailing behind
States meeting both criteria for scope of evaluation and/or both criteria for quality of evaluation.	States meeting only one of the criteria for scope and/or quality of evaluation.	States not meeting any of the criteria for scope or quality of evaluation.



SOURCE: Pew Center on the States analysis

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to examine them periodically. Arizona, Iowa, and Washington also are trying to ensure their evaluations become part of the policy-making process.

Other states have distinguished themselves through the quality of their analysis. In Connecticut, a study of the Job Creation Tax Credit provided evidence that the investment had benefited the state, and in Wisconsin, policy makers scaled back the state's film tax credit after an evaluation found it to be highly ineffective. The best evaluations also highlight opportunities for improvement. Louisiana's economic development agency discovered that one tax incentive it previously credited with creating more than 9,000 jobs had produced a third of that number. By taking a closer look, the agency identified a number of ways the incentive could be strengthened, many of which were adopted by state officials. Minnesota changed a particular incentive when a more thorough evaluation concluded it cost five times as much per job as the state previously believed.

Pew reviewed nearly 600 documents and interviewed more than 175 government officials and experts to examine how—and how well—states gauge the effectiveness of their tax incentives, if they do so at all. We also sought to identify promising approaches to doing it right.

In assessing state practices, this study does not take a position on whether tax incentives for economic development are good or bad. Rather, we examined the effectiveness of each state's evaluations, focusing on whether, and to what degree, they do the following:

1. Inform policy choices
2. Include all major tax incentives
3. Measure economic impact
4. Draw clear conclusions

Tax incentives cost billions of dollars every year, and states rely heavily on them to promote economic development. Policy makers should know whether these tools deliver a strong return on investment. Regular, rigorous, and comprehensive evaluations of tax incentives are critical to their ability to do so.

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Four criteria for effective evaluation

Effective evaluations:	What states can do:	A leading example:
Inform policy choices	Build evaluation of incentives into policy and budget deliberations to ensure lawmakers use the results.	Under a new Oregon law, tax credits expire every six years unless lawmakers extend them. During budget deliberations in 2011, legislative leaders set a spending cap on expiring incentives, driving policy makers to rely on evaluations to make tough choices about which incentives should continue, why, and in what form.
Include all major tax incentives	Establish a strategic and ongoing schedule to review all tax incentives for economic development.	In 2007, Washington began a 10-year process to review every tax incentive it offers. Today, nonpartisan analysts work with a citizen commission each year to analyze a particular group of incentives and make recommendations on whether and how they should change. Lawmakers review the recommendations at hearings.
Measure economic impact	Ask and answer the right questions using good data and analysis.	In calculating the number of jobs a tax incentive was creating, Louisiana's economic development agency took into account that some businesses receiving the incentives competed with other businesses in the state. The agency concluded that some newly created jobs merely displaced existing positions.
Draw clear conclusions	Determine whether tax incentives are achieving the state's goals.	In 2010, Connecticut's economic development agency assessed the state's major tax credits, using sophisticated analysis techniques. The agency concluded that although some incentives were not meeting the state's goals, others were beneficial and cost-effective.

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The Problem—and Why It Matters

In 2011, as they pondered how to close a budget gap of more than $200 million, New Mexico lawmakers turned their attention to the state's tax credit for movie and television productions. Since the credit's creation in 2002, the cost had risen to more than $60 million a year.[1] Lawmakers debated whether it was a ripe target to help balance the budget or whether movie and television productions generated enough economic activity to make up for the lost tax revenue. Each side had data to back up its view: Studies of the credit had produced wildly divergent answers.

A 2008 study for the legislature, written by New Mexico State University researchers, found that the state's investment generated just 14 cents per dollar in new revenue. From this perspective, New Mexico was losing out on tens of millions of dollars a year—money that could have been used to help balance the budget or for other priorities.[2]

But a 2009 study produced by Ernst & Young for the State Film Office found that every dollar spent on the film tax credit generated 94 cents in new state revenue. It indicated that New Mexico was reaping substantial economic benefits for a credit that nearly paid for itself.[3]

In the end, the state capped the program at $50 million a year. The conflicting studies, though, highlighted the need for good data. With one dissenting vote, lawmakers passed a bill to require film production companies to submit more detailed information on their spending and Gov. Susana Martinez (R) signed it into law. Now, the New Mexico Economic Development Department will be required to use the newly collected data to report on the credit's economic effectiveness. Although the budget debate on the tax credit was contentious, the bill requiring this new evaluation had broad support from the film industry and from the credit's critics. "We need a reliable study," said state Sen. Tim Keller (D), sponsor of the bill.[4]

Like New Mexico, most states are trying to rebuild their budgets after having closed budget gaps totaling more than $500 billion in the past five years, and many have not regained the private-sector jobs lost during the Great Recession.[5]

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State policy makers always are seeking to grow their economies, but are under even greater pressure to do so.

Tax incentives are a leading tool they employ. Every year, states offer tax credits, exemptions, and deductions to encourage businesses to create jobs and invest in the local economy. Every state has at least one tax incentive program and most have at least several. Incentives target businesses in a particular industry, such as manufacturing or movie production, those in geographic areas needing development, or those that meet certain criteria, such as hiring new workers. Frequently, incentives are used as part of a bidding war between states over firms seeking to relocate or expand. If one state offers an incentive, its competitors often feel compelled to match it or risk being left behind. "I would love to compete just on the basis of quality of life and other attributes than dollars," says Alan Levin, director of the Delaware Economic Development Office. "But that is not the way the game is played today, so you have to bring the tools that everyone else has or you lose."[6]

Deciding whether to make these investments, how much to spend, and which businesses should receive them involves policy choices with significant implications. When states offer economic development tax incentives, they have less money to spend on education, transportation, health care, and other critical services. Conversely, if states do not use incentives or use them well, they may be forgoing opportunities to create jobs and attract new businesses, among other benefits.

Thus, it is particularly important that policy makers know if these investments are cost-effective. But most do not have the data to make that determination.

The stakes are high. Because the numbers are not regularly and reliably reported, the exact cost of states' tax incentives is unknown. Some states do not estimate or publish the costs, and among those that do, differences in methodology prevent coming up with a reliable total. However, that number is certainly in the billions of dollars. A recent study looked at a select set of major tax incentives, including ones from nearly every state, and found the combined cost exceeded $9 billion.[7] Considering all tax incentives for economic development, the 50-state total likely is significantly higher. In addition, their use appears to have

Deciding whether to make these investments, how much to spend, and which businesses should receive them involves policy choices with significant implications.

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grown substantially since the 1970s.[8] For example, in 2000 four states had film tax incentive programs, totaling $3 million. In 2011, 37 had such programs, providing $1.3 billion.[9]

The amount of money at stake in a state can be significant. "For over a billion dollars' worth of business tax breaks [in Massachusetts], there are no measures of success," says Suzanne Bump (D), the state's auditor. "No one is determining whether it's benefiting the intended recipients or the public. It shows the real need for this kind of analysis."[10] In Georgia, tax credits for economic development are expected to cost the state more than $100 million in fiscal year 2012.[11] A tax reform panel concluded last year that although the state offers more than 30 credits to businesses, "there is little research that has evaluated the value of economic development tax credits in general and in Georgia in particular."[12]

California does not publish high-quality evaluations of a tax credit for research and development that costs more than $1 billion annually.[13] Sixteen states (Alabama, Alaska, Idaho, Illinois, Indiana, Maine, Maryland, Mississippi, Montana, Nevada, New Hampshire, South Dakota, Tennessee, Utah, Vermont, and Wyoming) and the District of Columbia did not publish a document between 2007 and 2011 that evaluated the effectiveness of a tax incentive.[14]

States have found that a high-quality evaluation can yield a dramatically different result than a less thorough one. For example, in Minnesota, the Department of Employment and Economic Development estimated that each job created through the state's Job Opportunity Building Zones (JOBZ) program cost about $5,000. After a more rigorous evaluation, the Legislative Auditor's office calculated a per-job cost of between $26,900 and $30,800.[15] Agency officials added rules designed to prevent companies from claiming JOBZ benefits if they would have located in the state without the incentives.

In Louisiana, the state economic development department attributed more than 9,000 new jobs to its Enterprise Zone program, but a few months later a more rigorous evaluation by the agency found the program had produced only 3,000 net new jobs.[16] The agency also found that when a new owner bought a firm, the rules may have allowed the new owner to count existing employees toward the program's job-creation requirements. Decision makers changed the rules to keep this from happening.

In both cases, the evaluations informed policy choices, with program improvements resulting from the findings.

In many states, evaluation takes place for only some economic development tax incentives. Massachusetts, Michigan, New

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Mexico, and Wisconsin have studied their film tax credits in recent years but have not reviewed other types of incentives in the same detail. Other states review all their economic development tax incentives but with minimal rigor. In Louisiana, the Department of Revenue is required to report whether each credit, exemption, or deduction has achieved its purpose and whether it was the most fiscally efficient means to reach that goal. In its 2011-12 report, the agency concluded that the purpose of dozens of incentives was "achieved in a fiscally effective manner," but offered no information on their economic results.[17]

Less-rigorous estimates of economic impact also can lead to vague or inconclusive findings. In California, companies claiming tax breaks under the state's Enterprise Zone program reported hiring nearly 37,000 new employees in 2008. But the state's Legislative Analyst's Office cast doubt on whether the program was creating jobs at all, although it could not provide a better estimate.[18] In 2007, Pennsylvania's Department of Community and Economic Development said the state's Keystone Opportunity Zone program had created nearly 64,000 jobs since 1999. One year later, the agency reduced its estimate to less than 35,000. The next year, a legislative committee review concluded that neither number was reliable and made suggestions for improving how data were collected and analyzed.[19]

In many cases, not only are states not getting reliable answers, they are not even asking questions about the effectiveness of their tax incentives. Because they are generally not considered part of the state budget, these incentives often avoid scrutiny from elected officials.

In Ohio, the state Chamber of Commerce and eight regional chambers issued a December 2010 report pointing out that tax credits, deductions, and exemptions "can be a tremendous economic tool." However, the report continued, "Ohio has no formal policies in place to regularly determine what value its tax expenditures are producing for citizens." It called for improving the scope and depth of the state's evaluation efforts, including "a full assessment of both the cost and economic benefit of each tax expenditure."[20]

The good news is that policy makers in Ohio and many other states are beginning to scrutinize tax incentives more carefully. "I want the answers to all of them," said state Rep. David Dank (R), who co-chaired an Oklahoma task force on tax incentives in 2011. "What are they doing? How do the benefits match up to the cost to the taxpayers?"[21]

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How Are States Doing?

To determine whether policy makers are getting the information to understand whether tax incentives are delivering a strong return on investment, Pew reviewed nearly 600 documents from state agencies and legislative committees and interviewed more than 175 policy makers, agency officials, and experts. We also received guidance and input on this research from several independent external advisers.

We narrowed that batch of documents to slightly fewer than 300 by focusing on those that were published or sponsored by a state agency or legislative committee between 2007 and 2011 and included data or analysis on the cost or benefit of tax incentives for economic development.

Next, we distinguished those that were actual evaluations. Documents had to attempt to determine the effectiveness of an incentive rather than just report numbers, and also consider the overall economic impact of the incentive, rather than just the results of a project or business receiving it. The 82 documents that met these standards formed the basis of our assessment. (More detail on the methodology is available in Appendix B. Descriptions of other types of state documents related to tax incentives can be found in Appendix C.)

In assessing the 50 states and Washington, D.C., Pew examined both the scope and quality of states' evaluations.

Scope. We asked whether the state 1) assesses all its major incentives for economic development, and 2) seeks to ensure that the results inform policy makers' deliberations. The state's rating on scope is based both on the evaluations it conducted during the study period and on interviews with executive and legislative officials. States that met these criteria are leading the way in this area. States that met the first criterion but not the second have mixed results, and states that met neither are trailing behind (see table on page 10).

Quality. Pew looked at whether each evaluation 1) thoroughly examines the tax incentive's impact on the state's economy, and 2) draws clear conclusions about whether it is achieving the state's goals and how it might be improved.

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States' ratings on quality are based on their single best evaluations. That enabled us to identify states that have performed quality evaluations at least once, even if they have not done so for all tax incentives. As with scope, states leading the way met both criteria. Those with mixed results met just one or the other, and those trailing behind met neither (see table below).

State-by-state ratings for scope can be found on page 13. State-by-state ratings for quality can be found on page 20. A list of the documents used to determine states' ratings can be found in Appendix C.

The two ratings are combined for an overall rating. A state that is leading the way on either scope or quality is leading the way overall. States that met at least one of the four criteria but are not leading the way in scope or quality have mixed results overall. States that did not meet any of the four criteria are trailing behind.

This analysis shows that although some states are doing a better job than others, no state has a complete picture of what its tax incentives are achieving. For instance, Minnesota has performed high-quality evaluations, but only for a small number of incentives. Arizona reviews most of

Rating the states

Rating the scope of evaluation

SCOPE RATING	Inform policy choices	Include all tax incentives
Leading the way	✓	✓
Mixed results		✓
Trailing behind		

Rating the quality of evaluation

QUALITY RATING	Measure economic impact	Draw clear conclusions
Leading the way	✓	✓
Mixed results		✓
Mixed results	✓	
Trailing behind		

Overall Rating

The two ratings are combined for an overall rating. A state that is leading the way on either scope or quality is leading the way overall. States that met at least one of the four criteria but are not leading the way in scope or quality have mixed results overall. States that did not meet any of the four criteria are trailing behind.

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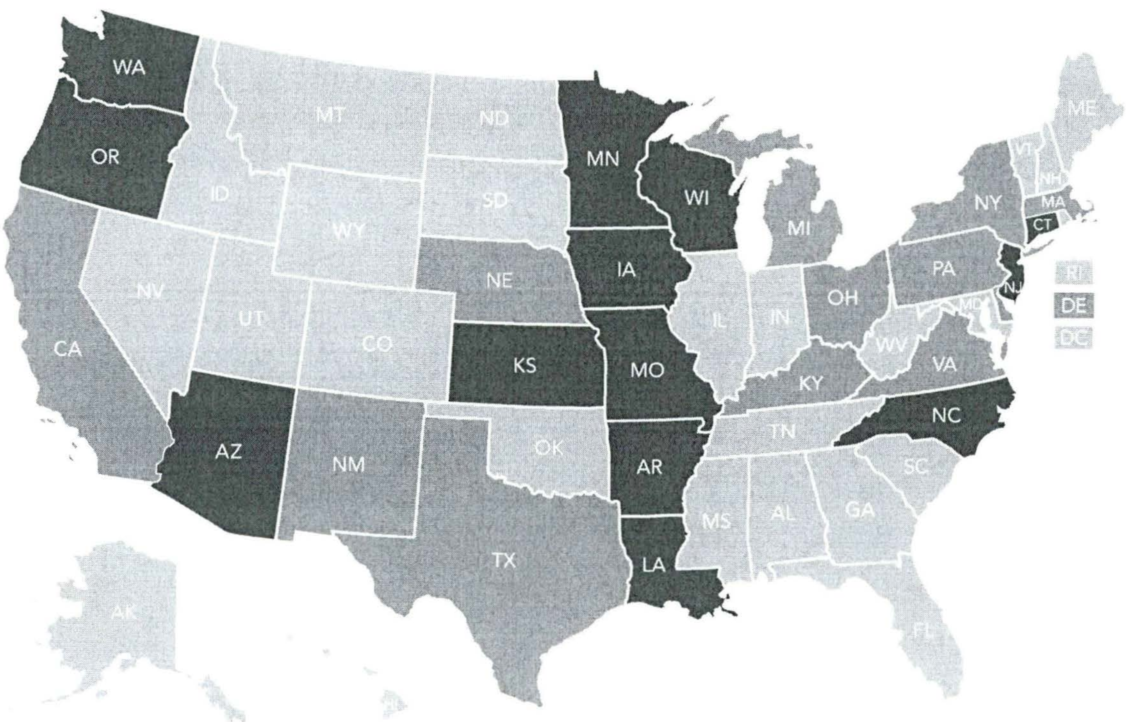
Overall: How are states doing?

13 Leading the way	12 Mixed results	26 Trailing behind
States meeting both criteria for scope of evaluation and/or both criteria for quality of evaluation.	States meeting only one of the criteria for scope and/or quality of evaluation.	States not meeting any of the criteria for scope or quality of evaluation.



SOURCE: Pew Center on the States analysis

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its incentives, but without thoroughly measuring their economic impact. Oregon is the only state that has performed at least some high-quality evaluations and instituted legislative review of all its major incentives. However, Oregon has not linked these two elements—that is, the evaluations that lawmakers rely on are not always rigorous.

A lower rating in this study does not necessarily mean that the state's tax incentives are ineffective. Conversely, a higher rating does not mean that the state's policy makers are making sound, evidence-based decisions on incentives. States were assessed on how well they evaluate their incentives, not on the merits or effectiveness of the incentives themselves.

SCOPE OF EVALUATIONS: Informing Policy Choices

What states can do: Build evaluation of incentives into policy and budget deliberations to ensure lawmakers use the results.

Unless policy makers act on the findings, evidence of how well tax incentives are working might not help ensure a strong return on the investments.

One challenge states face in translating evidence into policy is that lawmakers in most states do not regularly review tax incentives. "In an operating and capital budget, we review everything every year. Maybe not as carefully as we should, but we actually have to take a vote on everything," says Sen. Liz Krueger (D), ranking member of the New York Senate Finance Committee. On the other hand, for tax incentives, Krueger notes, "once it hits the books, it is quite possible no one ever looks at it again."[22]

Only four states—Arizona, Iowa, Oregon, and Washington—have integrated evaluation of their major incentives into the policy process, ensuring that those investments are regularly reviewed. They offer valuable examples for other states to learn from.

In Oregon, a 2009 law established expiration dates of six years for most tax credits. The sunsets were staggered so that credits with similar goals would end at the same time. Those for economic development will expire together, as will incentives that serve goals such as improving education. That allows decision makers to compare the results of similar programs. "Tax credits had been in a protected class for as long as I have any memory," says Sen. Ginny Burdick (D), co-chair of the legislature's new Joint Committee on Tax Credits. "This puts tax

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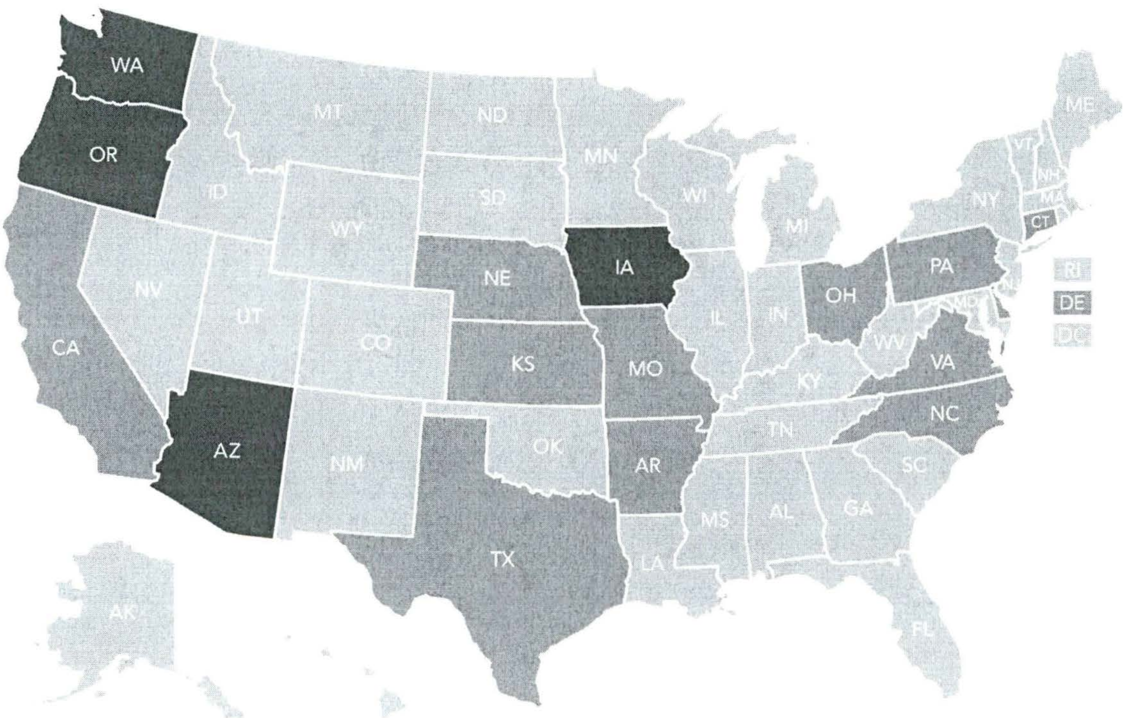
Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth

Scope: How are states doing?

4 Leading the way	12 Mixed results	35 Trailing behind
States that informed policy choices with reviews of all major tax incentives.	States that reviewed all major tax incentives, but fell short in using the data to inform policy choices.	States that did not review all major tax incentives or use data to inform policy choices.



SOURCE: Pew Center on the States analysis

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credits on the same playing field as other expenditures."[23]

In 2011, extending all expiring tax credits would have cost about $40 million. But legislative leaders told the Joint Committee they had only $10 million to work with. The combination of this spending cap and the sunsets forced them to make tough decisions. The committee held hearings on the credits and solicited testimony from state agencies, businesses receiving the incentives, and the public. "Once we went under the hood of these tax credits, there were surprises in every one," says Rep. Jules Bailey (D), one of the committee co-chairs.[24]

In the end, lawmakers allowed several incentives to expire, but the bulk of the cost savings came from significantly redesigning a tax credit intended to encourage alternative-energy production and conservation that had grown to be far more expensive than intended. Other credits were extended for another six years. In a legislature nearly evenly divided between Republicans and Democrats, there were only three dissenting votes on the bill, which was signed into law by Gov. John Kitzhaber (D).[25]

Oregon lawmakers are well positioned to regularly scrutinize tax incentives. But although the sunset dates are written into law, there is no policy to ensure expiring incentives receive in-depth evaluation. Still, lawmakers think creating a budget for tax incentives and a legislative committee to study them is a step in the right direction. "Our whole constitutional duty as a legislature is to balance the budget," says Representative Vicki Berger (R), a committee co-chair. "If these are expenditures, they need to be part of the budget process. That's the purpose of this committee."[26]

Since 2006, Washington State has had a strategy for reviewing tax incentives that combines citizen input, expert analysis from the legislative auditor, and annual hearings by legislative leaders.

1. A Citizen Commission, appointed by the governor and the majority and minority leaders from the Senate and House, establishes a schedule to ensure that each tax expenditure is reviewed at least once in a 10-year period.

2. The nonpartisan staff from the Joint Legislative Audit and Review Committee (JLARC) evaluates whether the tax preference's public policy objective is being met and provides recommendations to continue, modify, or terminate the incentives.

3. JLARC submits the report to the Citizen Commission along with comments from the Department of Revenue and the Office of Financial Management.

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INCENTIVE PROFILE **#1**

OREGON'S STRATEGIC INVESTMENT PROGRAM

Oregon's Strategic Investment Program (SIP) is intended to encourage companies to make large capital investments.

The application process includes a public hearing, a written agreement with the county where the investment will be made, and final approval from the Oregon Business Development Commission. Approved projects receive a 15-year partial property tax exemption. For example, a qualified company that made a $300 million investment in new plants or equipment would pay taxes on just $100 million in the first year, saving more than $3 million.[27]

In the 2011-13 biennium, SIP is expected to reduce local property tax revenue by $191 million.[28] To offset this, companies must pay service fees to the county and, if applicable, the city or other service providers such as fire districts. They must also agree to hire local workers where practicable.

The state budget is affected because the state must replace the revenue lost to school districts. However, as a property tax exemption, SIP was not included in the 2009 law that established sunsets for tax credits.

Since the incentive was created in 1993, the primary beneficiary has been semiconductor chip manufacturer Intel.

4. The commission holds a public hearing on JLARC's report and provides its own consensus-based comments and recommendations.

5. The legislative fiscal committees hold a joint hearing on the report.

"These are not easy analyses to do," says former state auditor Ruta Fanning. "Having staff that work on these evaluations every year helps. Their knowledge of the tax code and experience doing these kinds of evaluations can help them learn from year to year in order to make improvements." Fanning notes that over the years, JLARC's analysts have learned how to identify the often-obscure original purpose of the incentives. They also have become adept at comparing results from other states. Recently, policy makers granted the Citizen Commission flexibility to schedule reviews based on criteria such as type of industry or policy focus, rather than just the year of enactment. This enables JLARC to compare the effectiveness of incentives with similar purposes at the same time.[29]

State Rep. Gary Alexander (R) says JLARC analysts produce recommendations "from an unbiased standpoint, and that is very helpful when I consider whether to pursue their recommendations or not."[30]

Some commission members say there should be more pressure on legislators to act on the panel's recommendations. "It is a great process in terms of depoliticizing

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it, it is a great process in terms of providing really high-quality analysis and information, it is a great process in terms of involving public stakeholders and getting their views on the table, but it stops at that point," says William Longbrake, a member of the commission since its inception. "There is nothing that requires the legislature to do anything other than receive the report and hold one hearing on it."[31] The commission recently recommended that the legislature be more consistent in setting sunsets on tax incentives to ensure action is taken more often.

Arizona and Iowa have not gone as far as Oregon and Washington, but lawmakers in both states have committed to reviewing all major tax incentives every five years.

Since 2002, Arizona's joint Legislative Income Tax Credit Review Committee has met once a year to consider corporate and personal income tax credits. By law, all existing credits and any new credits the legislature creates must come before the committee every five years. Legislative staff members provide the committee with information on each credit: its purpose, its fiscal impact, and possible performance measures to determine whether it is working. With the staff report in hand, the committee holds a hearing on the credits up for review, taking testimony from the public. Then the panel makes formal recommendations to the full legislature. "It's just a good idea to review them periodically," says Rep. J.D. Mesnard (R), co-chair of the committee, "and make sure they're worth it."[32]

Iowa's Legislative Tax Expenditure Committee held its first meeting in November 2011. Like Arizona, it has a schedule for reviewing tax incentives on a five-year cycle. Iowa's committee is required by law to report on the return on investment the state is getting from the incentive programs, but has not yet determined how it will make those calculations. It has the power to offer recommendations, but, unlike Arizona, it is not required to and has not yet done so. As in Arizona, it may end up meeting one day a year. "The more time legislators spend understanding how these things work, the better," says state Sen. Joe Bolkcom (D), co-chair of the committee. "If we know how they work, we'll make better decisions."[33]

What Iowa has that Arizona does not is a history of producing rigorous analyses of tax incentives, according to Pew's research. If the new process includes the high-quality assessments the Iowa Department of Revenue is known for, Iowa could become a model for other states. Recently, the department published new evaluations on three of the tax credits that came before the legislative committee at its first meeting. It will be up to the state's elected officials to decide what to do with the findings.

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SCOPE OF EVALUATIONS:

Including All Major Tax Incentives

What states can do: Establish a strategic and ongoing schedule to review all tax incentives for economic development.

Sixteen states either evaluated all of their major tax incentives for economic development between 2007 and 2011 or have taken steps toward doing so, according to Pew's analysis. (Including all incentives requires significant resources, so some states have established criteria to determine which are "major"—i.e., should receive priority consideration. For example, although all incentives receive reviews, Washington's Joint Legislative Audit and Review Committee conducts deeper evaluations of those that cost more than $10 million over two years.)

By looking at all incentives, states can compare them to each other and determine which are the most effective. They can also decide which are duplicative and which complement one another.

Of the nine states that have scheduled recurrent reviews, Arkansas, California, and Nebraska perform these annually. Delaware's occur every two years, and Connecticut recently initiated a once-every-three-years assessment. Arizona, Iowa, Oregon, and Washington have set a revolving schedule

INCENTIVE PROFILE **#2**

OKLAHOMA'S QUALITY JOBS PROGRAM

Although this report focuses just on incentives through states' tax systems, businesses are offered other economic development benefits. For example, Oklahoma's largest economic development incentive is its Quality Jobs program, which offers quarterly cash payments to companies locating or expanding in the state based on a simple cost-benefit analysis.

To qualify, companies must be manufacturers or in certain service sectors and must generally create new jobs with a total payroll of $2.5 million or more (lower thresholds apply in certain cases). They must also meet wage and health-care coverage requirements.

Hundreds of companies benefit from Quality Jobs annually, and the Oklahoma Tax Commission reports recipients' names and the amounts of their payments. In fiscal year 2011, payments totaled more than $60 million; among those receiving multimillion-dollar payments were oil and natural gas companies SandRidge, Chesapeake, and ConocoPhillips, computer manufacturer Dell, aerospace manufacturer Spirit AeroSystems, and the owners of the National Basketball Association's Oklahoma City Thunder. [34]

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ranging from five to 10 years.[35] Any decision about frequency comes with trade-offs between resources, timeliness, and depth of the analysis. "If we tried to do a complete and thorough review of all the tax rules and incentives and preferences in one year or two, it would be an overwhelming task," says Rep. Alexander, of Washington State.[36]

In 2010, the Connecticut Department of Economic and Community Development issued the first of the state's triennial assessments, evaluating economic impact data as far back as 1995. This analysis allows policy makers to identify whether programs are growing or shrinking, and whether they are becoming more or less effective over time.[37]

In 2010, Missouri Gov. Jay Nixon (D) created a Tax Credit Review Commission made up of 27 business, community, and legislative leaders. Its charge was "a critical analysis to ensure taxpayers receive the greatest possible return on investment from tax credit programs and that those programs are used efficiently and effectively."[38] The commission recommended eliminating or not reauthorizing 28 tax credits and recommended improvements to 30 other programs to increase their return on investment. They also made recommendations on how to make regular review part of the policy-making process.[39] (Lawmakers have since spent months debating how to overhaul the state's tax credits, but they have not yet made the big changes the commission envisioned.)

Between 2007 and 2009, the Ohio Department of Development worked with a task force to conduct a detailed examination of the state's economic development incentives. The comprehensive nature of the study enabled the group to identify ways to streamline or consolidate programs—opportunities they could not have identified studying one incentive at a time. The task force also proposed increasing the transparency of transactions and decisions across a range of incentives.[40] Lawmakers enacted many of the changes the report proposed. "I'd describe this experience as taking a ship into dry dock and knocking the barnacles off," says Steve Schoeny, director of the department's strategic business investment division at the time.[41]

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QUALITY OF EVALUATIONS:

Measuring Economic Impact

What states can do: Ask and answer the right questions using good data and analysis.

When it comes to determining whether tax incentives are driving economic development, states have to ask the right questions to get the right answers. The states that have thoroughly measured the impact of at least some incentives tend to focus on a handful of key questions that are relevant when evaluating any government investment with an economic development purpose. They include:

- **Cause and effect:** To what extent did tax incentives change businesses' decisions, and how much did they reward what would have happened anyway?
- **Winners and losers:** To what extent did the incentive benefit some businesses or individuals at the expense of others?
- **Unintended beneficiaries:** How much of the benefit of the incentive flowed across state borders?
- **Timing:** When will the costs and benefits of the incentive occur, and how long will they last?
- **Economics of budget trade-offs:** What were the adverse economic impacts of the tax increases or spending cuts made to fund the incentive? Do the benefits of the incentive outweigh those impacts?
- **Indirect impacts:** To what extent do the investments of companies receiving incentives filter into the broader economy, causing further economic gains?

Cause and effect

A core problem vexing states is that it is difficult to determine what would have happened but for the tax incentives. In some cases, they might cause companies to create jobs or increase investment, but they might just be offering public dollars to reward businesses for what they would have done anyway.

There is no simple way to isolate the impact of tax incentives, but a number of states use creative approaches to doing so.

To understand the impact of a tax credit designed to encourage businesses to conduct research, the Iowa Department of Revenue compared research spending, the number of patents granted, and the number of Ph.D. scientists and engineers between states, including those with and without such credits.[42] The report found that the credits did not appear to increase

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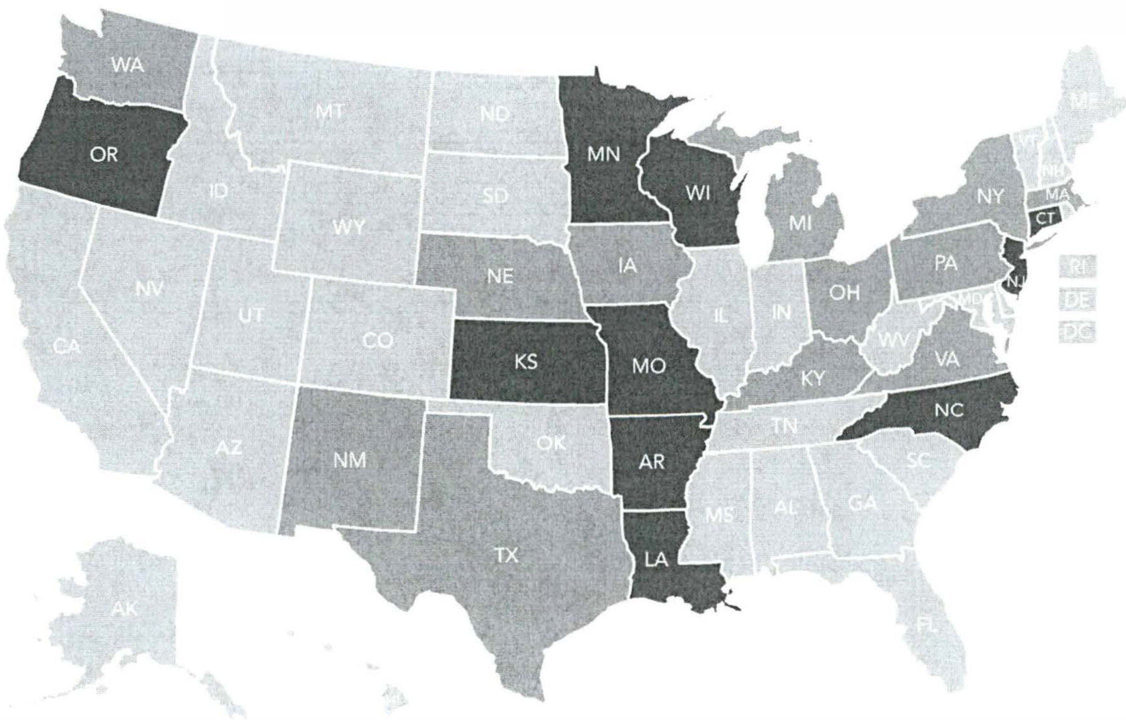
Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth

Quality: How are states doing?

10 Leading the way	**12** Mixed results	**29** Trailing behind
States whose best evaluation measured economic impact and drew clear conclusions.	States whose best evaluation either measured economic impact or drew clear conclusions, but not both.	States that either did not conduct any evaluations or whose best evaluation did not meet either criterion.



SOURCE: Pew Center on the States analysis

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the level of research activities in the state, relative to other states.

In 2011, consultants to the Oregon Department of Energy set out to determine the likelihood that the state's Business Energy Tax Credit was encouraging energy projects that would not otherwise have gone forward. The consultants examined what return on investment would make various types of energy projects, such as solar and wind farms, worthwhile for private investors. Then they constructed financial models for representative companies. Using the models, they described the kinds of projects for which the incentive would be a deciding factor—for instance, small wind farms versus large ones. They proposed the state use these findings to focus resources on projects where the credit would make a difference.[43]

Minnesota's legislative auditor relied on academic research to estimate that 79 percent of the jobs reported from recipients of Job Opportunity Building Zones would have been created without the incentives.[44] In response, the state Department of Employment and Economic Development began requiring that, before receiving the incentives, businesses certify they would not have located or expanded in Minnesota without the program.[45]

INCENTIVE PROFILE #3

HAWAII'S FILM TAX CREDIT

The Descendants was filmed on location in Hawaii. Like nearly 40 other states, Hawaii has a tax credit to encourage movies to be made there. In the case of *The Descendants*, this meant that for every qualified dollar Ad Hominem Productions and Fox Searchlight Pictures spent while filming in the state, their tax liability was reduced by 15 to 20 cents (depending on the island). Qualified expenses included equipment, travel, and the wages of any cast and crew members while they worked in Hawaii—from local extras to star George Clooney.

The amount of the credit often exceeds the production companies' tax liability. (The state expects the investment to pay off through direct and indirect spending related to the filmmaking and through tourism generated by the movie, among other factors.) If a business is awarded a credit larger than its tax liability, it receives the surplus in the form of a refund. Some states offer "transferable" credits—instead of providing a refund, they allow companies to sell surplus credits to others.[46]

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Winners and losers

States try to design tax incentives that will grow the state economy rather than redistribute existing resources. They do not always succeed. When evaluating such incentives, relatively few states recognize that the benefits they bring to a firm, industry, or community could be offset by losses to others.

Displacement depends on many factors, including the type of business receiving the incentive and local market conditions. As a general rule, if a beneficiary will rely heavily on local consumers, its job growth will be offset by job losses at existing businesses. For example, a tax incentive may spur the opening of a restaurant, which hires new employees. But if local residents patronize this restaurant instead of existing ones, the latter could be forced to lay off workers.

To get beyond local demand, tax incentives often target industries such as manufacturing and tourism that also serve national and international customers. But this is not a guarantee against displacement. An incentive might prompt the opening of a new meatpacking plant, driving up the price of local livestock. The new plant might be able to pay the higher prices whereas older plants without the incentive cannot.

In 2010, Louisiana's economic development agency attempted to determine whether its Enterprise Zone program was creating some jobs at the expense of others. The agency estimated that 90 percent of the Enterprise Zone jobs in the hotel, restaurant, retail, and health-care industries were merely replacing existing jobs.[47] This estimate relied on academic literature that showed the market for these industries tends to be local.[48] The report pointed out the tax incentive program might be less effective than those of neighboring states, such as Texas and Arkansas, which prohibit retailers from qualifying for their equivalent tax credits. So far, Louisiana lawmakers have not acted to put similar restrictions in place.

Unintended beneficiaries

Given the connection between regional, national, and even international economies, it is not possible to ensure that all benefits from an economic development tax incentive will remain within a state. The extent to which the benefits leak out of the state can help determine its value. For example, a Missouri tax incentive may prompt a business to relocate to Kansas City, MO, creating 100 jobs. But state lawmakers might view the incentive less favorably if 90 of those new employees live in Kansas City, KS. New jobs might also be filled by people moving to the state to take them, rather than current residents who need work.

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In Wisconsin, the Department of Commerce in 2009 pointed out the size of incentives awarded through the state's film tax credit was based on the movie's total spending, not just the money spent in Wisconsin. Seventy-three percent of the spending on *Public Enemies*, a movie starring Johnny Depp and Christian Bale, flowed out of state, largely because most of the workers on the film were not Wisconsin residents. In fact, the report noted, the tax credit was structured in such a way that the production companies benefited from hiring out-of-state labor. Wisconsin ended up reimbursing the companies for $4.6 million, even though the film generated only $5 million in spending in the state. The credits increased net economic activity there only temporarily by less than half a million dollars.[49] Prompted by the report, the state scaled back the film tax credit, capping it at $500,000 per year. "We wanted to reform the program," says Zach Brandon, who co-authored the report, adding that his goal was to "force it to create jobs in the State of Wisconsin that could be measured because we didn't care about jobs in [Los Angeles]."[50]

In examining the economic impact of a tax credit designed to increase research and development, the Connecticut Department of Economic and Community Development took into account that the credit spurred companies to buy specialized durable equipment. Since that equipment was not produced in Connecticut, some benefits from the credit were flowing out of state.[51]

Missouri's state auditor discovered in 2007 that a credit intended to encourage local processing of Missouri agricultural commodities and products was, in two cases, providing incentives to out-of-state production facilities. The audit recommended a change in law that would ensure greater in-state economic benefits.[52] Policy makers agreed, and they approved legislation clarifying that the program was open only to companies with facilities in the state.[53]

Timing

Often the costs and benefits of tax incentives do not occur simultaneously. Without careful analysis, this can skew the results of evaluations. Some incentives provide benefits only after a company has met certain requirements; others provide incentives upfront, even though the economic benefits (jobs, for example) will not materialize until later.

Between 2010 and early 2012, for example, the New Jersey Economic Development Authority (NJEDA) awarded tax credits worth more than $900 million to owners and developers who agreed to make capital investments of at least $50 million near urban transit hubs and retain or create new jobs.[54] But most projects have not yet broken ground, and the state Department of the Treasury expects

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COLLECTING HIGH-QUALITY DATA

Access to high-quality data is essential for determining tax incentives' return on investment. Often lawmakers play an integral role in ensuring that data are collected and made available.

One approach is to require businesses to provide data as a condition of getting the benefit. The Massachusetts Department of Revenue could identify the in-state impact of a film tax credit because production companies are required to distinguish between spending that benefits residents of other states—such as the salaries of actors and directors—and spending that boosts the local economy. (In contrast, when it comes to other types of incentives, Massachusetts generally has not required companies to provide as much information.) The department's rigorous evaluations of the film tax credit are possible only because the legislature required detailed production company budgets to be reported, says Kazim Ozyurt, director of the Office of Tax Policy Analysis.[55]

Another approach is to create access for evaluators to mine existing information. Assessing incentives often involves using tax data that are subject to restrictive confidentiality rules. Lawmakers, though, can make exceptions. In North Carolina, the General Assembly authorized a research team from the University of North Carolina's Carolina Center for Competitive Economies to access confidential tax data from the Department of Revenue and employment data from the Department of Labor. The researchers showed that in most recent years, companies receiving tax credits under the state's largest incentive program were adding jobs more slowly than companies that had not received the incentives.[56] "We signed our life away with the confidentiality agreements," senior research director Jason Jolley says. "This is why the state study is so unique. We had data that is confidential that no one else had."[57]

Policy makers also can help ensure agencies are working together to collect and analyze comprehensive information. In 2005, Iowa did not have reliable estimates of how much tax credits were going to cost the state and in what year the costs would impact the state budget. To address this problem, the legislature paid for a collaboration between the Department of Revenue and agencies that award credits, such as the state's economic development department. The agencies created a tracking system that catalogues when agencies award tax credits and keeps tabs on whether companies have claimed the credits on their taxes yet (sometimes credits are awarded years before they are claimed).[58] In 2011, when the department evaluated a tax credit designed to encourage business research, the tracking system helped it perform a more rigorous analysis.[59]

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companies to claim only around $9 million through June 2014.[60] When the projects are completed, the owners and developers will receive tax credits of up to 100 percent of the amount they spent, which they can apply to their corporate business tax bill over a 10-year period or transfer to other businesses.[61] Although the cost of the credits will occur over 10 years, the NJEDA expects the benefits will last for at least 20 years.[62]

In Connecticut, businesses start receiving the Urban and Industrial Site Reinvestment Credit only after building or expanding a facility and creating jobs in the state for three years. For that reason, Connecticut's Department of Economic and Community Development is careful to offset the benefits by the costs only in the last seven years of the 10-year program.[63]

In Oregon, in 2011, consultants studied incentives for energy projects such as wind and solar farms. When they measured the effects of the projects on employment and the size of the state's economy, they created separate calculations for impact in two phases of the projects: during construction and during operations. By dividing their calculations that way, they showed that projects will have different economic results when they are operating than when they are under construction. For example, they found that building a typical large-scale wind energy project would create 671 jobs per year during the construction phase, but operation and maintenance of the same project would sustain only 24 jobs a year.[64]

Economics of budget trade-offs

Any revenue states forfeit by offering tax incentives must be offset by spending cuts or tax increases to keep their budgets balanced. Because both actions are a drag on growth, a tax incentive's net economic impact is its positive benefits for the state minus the cost of the economic harm that can result from cutting spending or raising taxes. Most evaluations do not take this into account, but some of the best ones do.[65]

In analyzing the impact of the state's film-industry tax incentives, the Massachusetts Department of Revenue estimated that they created 1,643 jobs for state residents in 2009. However, the agency also estimated that the spending cuts required to pay for the incentives would reduce employment by 1,421 jobs, meaning the incentive was responsible for 222 Massachusetts jobs. The incentives cost more than $70 million that year, which means that each of those positions cost the state more than $300,000 in 2009.[66] About a year later, another study concluded the credit cost more Massachusetts jobs in 2010 than it created.[67] The 2009 version of the report helped prompt a debate within the administration of Gov. Deval Patrick (D) over whether the credits were providing a good return on investment.[68] In 2010, he proposed capping the program at $50 million a year, but the legislature rejected that idea.

When consultants for the Oregon Department of Energy reviewed the state's Business Energy Tax Credit, they found that it would have increased wages by nearly $168 million in 2008. However, because redirecting the money used on the incentives to other government programs would have also increased wages, their estimate of the net wage growth from the tax credit was the difference between the two options: $17.5 million.[69]

Indirect impacts

If a factory hires employees as a result of a tax incentive, the economic payoff may not stop there. Businesses that sell products to that factory could benefit and hire more workers. The new employees could spend their increased income locally, further multiplying the benefits. These indirect impacts are even more difficult to assess than the initial number of jobs created.

To measure these ripple effects, evaluators often use a methodology called economic impact analysis, usually relying on software packages such as REMI and IMPLAN. These models use complex equations to predict how the economy will react to different scenarios, enabling analysts to estimate, for example, the number of restaurant jobs that will result from an increase in manufacturing jobs in the same community.

Economic impact analysis can provide a wealth of important information. Some of the most effective evaluations identified in this study, including those in Connecticut and Missouri, use these models. In other cases, an economic impact analysis may convey an undeserved sense of rigor. Some evaluations that use REMI or IMPLAN do not take into account the budget trade-offs of incentives, or they simply assume that all economic benefits resulted from the incentives.

A study of the New Jersey Urban Enterprise Zone used IMPLAN to estimate how the economy would benefit if the program worked as intended. Many studies stop there and assume the projected results occurred—giving the incentive automatic credit. In New Jersey, however, researchers compared the expected results to what was actually happening and found the program was falling short. IMPLAN estimated, for example, that if the program was working as designed, the sales tax exemption would have created more than 800 jobs, but the businesses receiving the exemption reported a loss of more than 2,000 jobs, making it unlikely the program was having the desired effect.[70]

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QUALITY OF EVALUATIONS:

Drawing Clear Conclusions

What states can do: Determine whether tax incentives are achieving the state's goals.

The best evaluations of tax incentives for economic development draw clear conclusions, especially about whether the investment is meeting the state's goals.

Some states are making efforts to define more clearly the purpose of incentives and the benchmarks for determining success at the outset. In Minnesota, the 2010 law creating a tax credit to encourage investments in technology start-ups included money to pay for an evaluation by January 2014. The law indicates how the evaluation should determine whether the incentive has been effective. For example, the study must compare the economic results of the credit to alternative policies, such as cutting business taxes.

But in many cases, evaluators struggle to determine whether incentives are effective because they lack a clear, up-to-date, and measurable goal. "What are they intended to accomplish?" asks Philip Durgin, executive director of Pennsylvania's Legislative Budget and Finance Committee. "A lot of [incentives], they just give money out."[71]

To say whether incentives are working well, states need to consider why they were enacted. If the goal is to help distressed areas, is the incentive designed to ensure that they benefit? If the goal is job creation, has the state put in place protections to make sure beneficiaries create new positions? Evaluations are better equipped to come to clear conclusions by asking such questions about the original intent.

The name of the Louisiana Quality Jobs program indicates its purpose: "The whole notion is creating quality jobs," says Stephen Moret, secretary of Louisiana Economic Development.[72] In evaluating the program in 2010, the agency identified ways in which it might not have been meeting that goal. For example, the jobs were required to include basic health insurance, but the rules governing eligibility allowed employers to delay the availability of insurance and provide subpar benefits. The agency updated the program's rules to require companies to offer health insurance to new employees within 90 days and to create formal procedures for analyzing its value to make sure it was adequate. [73]

In an evaluation of the Keystone Opportunity Zone program (KOZ) in Pennsylvania, the Legislative Budget

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and Finance Committee relied on the legislative intent section of the act creating the program to determine that it was aimed at boosting employment and capital investment in the state. Yet recipients of KOZ were not required to create jobs or make investments to maintain eligibility. The committee recommended that only projects that generate these results qualify for KOZ.[74]

Sometimes the original goals of incentives are obsolete. In evaluating a tax incentive for beef processors, Washington State's Joint Legislative Audit and Review Committee determined that the state had created the benefit to provide temporary relief during a ban on U.S. beef by Japan, South Korea, and Mexico after the discovery of mad cow disease on a Washington ranch in 2003. When it studied the tax deduction in 2007, the JLARC concluded that the beef-processing industry was no longer suffering. Policy makers agreed, and the program ended that year.[75]

Even when an incentive's purpose is not clearly established, some states have defined goals after the fact. When the North Carolina General Assembly commissioned a study to assess the effectiveness of the state's tax incentives, policy leaders did just that. The legislature's Joint Select Committee on Economic Development Incentives and legislative staff helped University of North Carolina evaluators identify three primary goals for the incentives: creating quality jobs, benefiting distressed areas, and making the state more economically competitive. Within each of those broad goals, lawmakers and the evaluators identified relevant measures. For quality job creation, they were interested not only in the number of jobs but also their wages, whether they were in industries the state was targeting, and whether the businesses were hiring North Carolina residents.[76]

When tax incentives do not meet their targets for statewide economic growth, there may be other goals the legislature considers. The Missouri auditor's office concluded that a tax credit program designed to encourage processing of agricultural commodities would create few jobs and have only a minimal net effect on the state's economy, while costing far more than the additional revenue generated. However, the agency noted that the program may have positive impacts in rural communities and, in doing so, improve quality of life there. The auditor recommended that lawmakers consider whether this was worth the cost of the incentives.[77]

In many cases, states that find their tax incentives are not generating the expected return on investment choose

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to alter them and not eliminate them. Effective evaluations often provide a blueprint for improvement.

In Minnesota, the legislative auditor's office in 2008 made a variety of recommendations to correct flaws it identified in the Job Opportunity Building Zones program. It advised that JOBZ projects should go forward only with the approval of the state Department of Employment and Economic Development (before the change, local governments could approve projects). It recommended that before approval, companies should have to disclose competition with existing Minnesota businesses and demonstrate they would not expand or relocate without the incentives. It also said the agency should consider the costs and benefits of each project.[78] The department made many of the recommended changes.[79]

Even when the goals of an incentive are clear, it still might be difficult for evaluators to draw conclusions and make recommendations. Governors and legislators often have staked out positions for or against tax incentives, so agency staff might not be comfortable passing judgment on them. The Nebraska Department of Revenue must offer recommendations in an annual report on tax expenditures,

INCENTIVE PROFILE #4

MARYLAND'S ENTERPRISE ZONE

States commonly use enterprise zones to try to revitalize economically distressed areas. They lower taxes and sometimes reduce regulations to create incentives for businesses to locate in specified neighborhoods.

In Maryland, there are 28 enterprise zones, from a 64-acre industrial park in rural Garrett County to more than 21,000 acres of Baltimore neighborhoods. Eligible businesses located in these zones can receive a one-time credit against state corporate income taxes of $1,000 per new employee ($1,500 in the zones in Baltimore city or Prince George's County, which are considered "focus areas"). To encourage businesses to hire people in greatest need of employment, the credit is six times higher if the worker has very low family income, is receiving financial assistance from social service programs, or is homeless. Companies also can receive local property tax credits.[80]

Maryland does not disclose information on the recipients of enterprise zone credits, nor has the state published a rigorous evaluation of this program.

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but in the latest edition, it simply repeats the same line 19 times: "The Nebraska Department of Revenue has no recommendations."[81] "We don't want to be the ones to determine winners or losers," says Kimberly K. Conroy, the state's deputy tax commissioner.[82]

Sometimes lawmakers agree. Sen. Joe Bolkcom, co-chair of the Iowa Tax Expenditure Committee, says it is not the Department of Revenue's job to tell lawmakers what they should do. "It's too much to expect them to do that," he says. Bolkcom's view is that policy makers should draw their own conclusions based on the department's research on the economic impact of incentives.[83] The Iowa legislature's new Tax Expenditure Committee is structured to do just that.

Ultimately, making policy choices about tax incentives is the purview of legislators and governors. Evaluations by auditors, economic development agencies, legislative committees, and outside consultants that provide clear statements of whether incentives are meeting their intended goals have proven a valuable resource to lawmakers in a number of states.

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Conclusion

Every year, states invest billions of taxpayer dollars in tax incentives designed to promote economic development, but few know whether they are getting a strong return on their investment. Some states do not carefully measure the economic impact of their incentives; others do not examine them at all. Some have conducted rigorous evaluations of individual tax incentives and others have systems for regularly reviewing all major tax incentives—but no state has put the two together.

As a result, when lawmakers consider whether to offer or continue such incentives, how much to spend, and who should get them, they often are relying on incomplete, conflicting, or unreliable information.

Closing this knowledge gap should be a top priority for policy makers, especially as states continue their efforts to emerge from the Great Recession. The good news is that a number are striving to do so, creating a blueprint for others to follow.

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EVIDENCE COUNTS

State-by-State Ratings

Leading the way ●
mixed results ◍
trailing behind ○

	Inform policy choices	Include all tax incentives	SCOPE RATING	Measure economic impact	Draw clear conclusions	QUALITY RATING	TOTAL SCORE
Alabama			○			○	○
Alaska			○			○	○
Arizona	✓	✓	●			○	●
Arkansas		✓	◍	✓	✓	●	●
California		✓	◍			○	◍
Colorado			○			○	○
Connecticut		✓	◍	✓	✓	●	●
Delaware		✓	◍			○	◍
District of Columbia			○			○	○
Florida			○			○	○
Georgia			○			○	○
Hawaii			○			○	○
Idaho			○			○	○
Illinois			○			○	○
Indiana			○			○	○
Iowa	✓	✓	●	✓		◍	●
Kansas		✓	◍	✓	✓	●	●
Kentucky			●	✓		◍	◍
Louisiana			○	✓	✓	●	●
Maine			○			○	○
Maryland			○			○	○
Massachusetts			○	✓		◍	◍
Michigan			○	✓		◍	◍
Minnesota			○	✓	✓	●	●
Mississippi			○			○	○
Missouri		✓	◍	✓	✓	●	●
Montana			○			○	○
Nebraska		✓	◍		✓	◍	◍
Nevada			○			◍	○
New Hampshire			○			○	○
New Jersey			○	✓	✓	●	●
New Mexico			○	✓		◍	◍
New York			○		✓	◍	◍
North Carolina		✓	◍	✓	✓	●	●
North Dakota			○			○	○
Ohio		✓	◍		✓	◍	◍
Oklahoma			○			○	○
Oregon	✓	✓	●	✓	✓	●	●
Pennsylvania		✓	◍		✓	◍	◍
Rhode Island			○			○	○
South Carolina			○			○	○
South Dakota			○			○	○
Tennessee			○			○	○
Texas		✓	◍		✓	◍	◍
Utah			○			○	○
Vermont			○			○	○
Virginia		✓	◍		✓	◍	◍
Washington	✓	✓	●		✓	◍	●
West Virginia			○			○	○
Wisconsin			○	✓	✓	●	●
Wyoming			○			○	○

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Methodology

Document Search

For all states and the District of Columbia, we took two steps to identify documents related to state tax incentives for economic development. First, we conducted a comprehensive scan of the websites of relevant state agencies, including economic development, treasurer, revenue, finance, auditor, budget, comptroller/controller, legislative auditor, legislative research services, film offices, and relevant commissions or task forces. This involved a manual scan of each site and a search using a customized search engine. Extensive information on each document was entered into a database. For each state, the search was performed a second time by a different analyst to help ensure quality control.

Next, we supplemented the Internet search by interviewing officials in economic development agencies, executive fiscal agencies, and legislative offices in all 50 states and the District of Columbia. We conducted more than 175 interviews. The officials confirmed the documents we had collected and, in some cases, provided documents not available on state websites.

By casting this wide net, we collected and assessed nearly 600 documents. We narrowed this list to 293 documents by excluding those that were published before 2007, were not published or sponsored by a state agency or legislative committee, lacked data or analysis on the costs or benefits of current tax incentives for economic development, or were excerpts from other documents. We also included documents that described the state's policies for evaluating tax incentives. When documents had multiple editions, we kept the most recent edition unless older versions were of higher quality based on our assessment. A state-by-state breakdown of these documents is available on page 34. (The number of evaluations in a state does not necessarily correspond to their quality. In addition, in some states, a single document may evaluate multiple tax incentives.)

Next, we reviewed each of the 293 documents to determine which met our definition of an evaluation. These documents had to 1) attempt to determine the effectiveness of an incentive rather than

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EVIDENCE COUNTS

Tax incentive documents and evaluations by state

	Tax incentive documents	Evaluation documents	Did any evaluation meet one or more criteria?
Alabama	0	0	N/A
Alaska	6	0	N/A
Arizona	9	2	YES
Arkansas	6	4	YES
California	6	2	YES
Colorado	5	2	NO
Connecticut	6	3	YES
Delaware	1	1	YES
District of Columbia	2	0	N/A
Florida	7	5	NO
Georgia	3	1	NO
Hawaii	3	2	NO
Idaho	2	0	N/A
Illinois	6	0	N/A
Indiana	5	0	N/A
Iowa	21	5	YES
Kansas	7	2	YES
Kentucky	4	1	YES
Louisiana	10	4	YES
Maine	6	0	N/A
Maryland	6	0	N/A
Massachusetts	4	1	YES
Michigan	10	1	YES
Minnesota	14	2	YES
Mississippi	1	0	N/A
Missouri	16	7	YES
Montana	3	0	N/A
Nebraska	3	1	YES
Nevada	1	0	N/A
New Hampshire	1	0	N/A
New Jersey	5	3	YES
New Mexico	10	3	YES
New York	10	1	YES
North Carolina	8	2	YES
North Dakota	3	1	NO
Ohio	11	3	YES
Oklahoma	3	1	NO
Oregon	9	6	YES
Pennsylvania	8	4	YES
Rhode Island	7	2	NO
South Carolina	3	1	NO
South Dakota	2	0	N/A
Tennessee	1	0	N/A
Texas	4	1	YES
Utah	2	0	N/A
Vermont	4	0	N/A
Virginia	8	2	YES
Washington	14	4	YES
West Virginia	3	1	NO
Wisconsin	4	1	YES
Wyoming	0	0	N/A
Totals	**293**	**82**	

States with evaluations

34

States with documents meeting at least one criterion for scope or quality

25

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just report numbers, and 2) consider the overall economic impact of the incentive, rather than just the results of a specific project or business receiving an incentive. Eighty-two documents met these criteria.

Criteria for Assessment

Scope. Based on the evaluations and interviews with state officials, we established the following criteria for assessing the scope of evaluations:

1. Including all major tax incentives. States could count as evaluating "all major tax incentives" even if they had not evaluated every one, so long as their decisions were based on reasonable criteria, such as which incentives cost the most and which incentives are open to new applicants. States could also receive credit if they were part of the way through a defined schedule to evaluate all major incentives.

2. Informing policy choices. To meet this criterion, the states had to include all incentives and, at a minimum, hold regular legislative hearings as part of the evaluation process.

Quality. We established the following criteria for assessing the quality of states' evaluations:

1. Measuring economic impact. When determining whether an evaluation thoroughly measured economic impact, we focused on whether it isolated the impact of the tax incentive from other factors that influence business decisions, rather than assume the economic impact resulted from the incentive alone. Evaluations could achieve this in several ways, including 1) statistical analysis making comparisons between states or parts of the state; 2) surveys of recipients of the incentive; 3) simulations of the potential impact using existing literature or other analysis; or 4) tests of how sensitive estimates are to a range of assumptions.

Many studies that isolated the impact of the incentives themselves (versus other factors) addressed other key questions regarding economic impact, such as whether the tax incentive benefited some businesses at the expense of others, whether the benefits flowed across state borders, the timing of the costs and benefits, the economic impact of budget trade-offs, and indirect impacts.

2. Drawing clear conclusions. We looked for whether the evaluation concluded explicitly, based on good analysis, whether the incentive was meeting the state's goals. We also looked for whether the evaluation made recommendations for improving the program

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Ratings

There are three rating categories: leading the way, mixed results, and trailing behind. States received a rating for scope, a rating for quality, and an overall rating.

Scope:

Leading the way: The state informed policy choices with reviews of all major tax incentives.

Mixed results: The state reviewed all major tax incentives, but fell short in using the data to inform policy choices.

Trailing behind: The state did not review all major tax incentives, nor did it use data to inform policy choices.

Quality:

Leading the way: The state's best evaluation measured economic impact and drew clear conclusions.

Mixed results: The state's best evaluation measured economic impact OR drew clear conclusions, but not both.

Trailing behind: Either the state did not conduct any evaluations or the state's best evaluation did not meet either criterion.

Rating the states

Rating the scope of evaluation

SCOPE RATING	Inform policy choices	Include all tax incentives
Leading the way	✓	✓
Mixed results		✓
Trailing behind		

Rating the quality of evaluation

QUALITY RATING	Measure economic impact	Draw clear conclusions
Leading the way	✓	✓
Mixed results		✓
Mixed results	✓	
Trailing behind		

Overall Rating

The two ratings are combined for an overall rating. A state that is leading the way on either scope or quality is leading the way overall. States that met at least one of the four criteria but are not leading the way in scope or quality have mixed results overall. States that did not meet any of the four criteria are trailing behind.

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Overall:

Those two ratings are combined for an overall rating. A state that is leading the way on either scope or quality is leading the way overall. States that met at least one of the four criteria, but are not leading the way in either scope or quality, have mixed results overall. States that did not meet any of the four criteria are trailing behind.

Leading the way: A state can lead the way in the scope of evaluation (by informing policy choices and including all major tax incentives) or in the quality of evaluation (by measuring economic impact and drawing clear conclusions).

Mixed results: A state with mixed results has only partially met the criteria for scope and/or quality of evaluation.

Trailing behind: A state is trailing behind if it has not met any of the criteria for scope or quality of evaluation.

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State-by-State Evaluations

This study considered the scope of tax incentive evaluations from 2007 to 2011, assessing states on whether they 1) evaluated all major tax incentives and 2) sought to ensure that policy-making deliberations were informed by the results. Listed below is a document from every state that met one or both of these criteria. For states that evaluated all major tax incentives in a single document, that document is listed; for states that conducted a series of reviews over time, the list includes their most recent evaluations or documents describing their process.

To assess quality, this study assessed the states' single best evaluation of a tax incentive from 2007 through 2011. Listed below is the best evaluation in every state that met at least one of the two criteria for quality: thoroughly measuring the economic impact of tax incentives and drawing clear conclusions. Although some states have produced multiple evaluations that met one or both criteria for quality, only the single best evaluation—the one used to assess the state—is listed.

Arizona

Scope: Rating was based on the state's ongoing review process. For more information, see: http://azmemory.lib.az.us/cdm4/document.php?CISOROOT=/statepubs&CISOPTR=184&REC=3

Arkansas

Scope and quality: Arkansas Legislative Joint Auditing Committee, "Performance Audit - Selected Programs of the Consolidated Incentive Act of 2003," October 2009, http://arklegaudit.gov/showfile.php?t=webaudit&fid=PSPE02908.

California

Scope: State of California Franchise Tax Board, "California Income Tax Expenditures Compendium of Individual Provisions," December 2011, https://www.ftb.ca.gov/aboutftb/Tax_Expenditure_Report_2011.pdf.

Note: All links were active as of March 26, 2012.

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Connecticut

Scope and quality: Connecticut Department of Economic and Community Development, "An Assessment of Connecticut's Tax Credit and Abatement Programs," December 2010, http://www.ct.gov/ecd/lib/ecd/decd_sb_501_sec_27_report_12-30-2010_final.pdf.

Delaware

Scope: Delaware Department of Finance, "2011 Tax Preference Report," December 2011, http://finance.delaware.gov/publications/tax_prefer/report_11.pdf.

Iowa

Scope: Rating was based on the state's ongoing review process. For more information, see: https://www.legis.iowa.gov/DOCS/LSA/IntComHand/2012/IHMJD000.PDF.

Quality: Iowa Department of Revenue, "Iowa's Research Activities Tax Credit Tax Credits Program Evaluation Study," January 2008, http://www.iowa.gov/tax/taxlaw/IDRTaxCreditEvalJan2008.pdf.

Kansas

Scope and quality: Kansas Legislative Division of Post Audit, "Kansas Tax Revenues, Part I: Reviewing Tax Credits," February 2010, http://www.kslpa.org/docs/reports/10pa03-1a.pdf.

Kentucky

Quality: University of Kentucky Center for Business and Economic Research (for Kentucky Cabinet for Economic Development), "An Examination of Incentives to Attract and Retain Businesses in Kentucky," January 2007, http://cber.uky.edu/Downloads/BusinessIncentives_Final%20Report_01182007.pdf.

Louisiana

Quality: Louisiana Economic Development, "Enterprise Zone Program 2009 Annual Report," March 2010, http://www.louisianaeconomicdevelopment.com/downloads/2009_Annual_Report_Enterprise_Zone.pdf.

Massachusetts

Quality: Massachusetts Department of Revenue, "A Report on the Massachusetts Film Industry Tax Incentives," November 2011, http://www.mass.gov/dor/docs/dor/news/2011filmincentivereport.pdf.

Michigan

Quality: Michigan Senate Fiscal Agency, "Film Incentives In Michigan," September 2010, http://www.senate.michigan.gov/sfa/Publications/Issues/FilmIncentives/FilmIncentives.pdf.

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Minnesota

Quality: Minnesota Office of the Legislative Auditor, "Evaluation Report: JOBZ Program," February 2008, http://www.auditor.leg.state.mn.us/ped/pedrep/jobz.pdf.

Missouri

Scope: Missouri Tax Credit Review Commission, "Report of the Missouri Tax Credit Review Commission," November 2010, http://tcrc.mo.gov/pdf/TCRCFinalReport113010.pdf.

Quality: Missouri State Auditor, "Analysis of the New Generation Cooperative Incentive Tax Credit Program," February 2007, http://www.auditor.mo.gov/press/2007-06.pdf.

Nebraska

Scope and quality: Nebraska Department of Revenue, "Nebraska Tax Incentives: 2010 Annual Report to the Nebraska Legislature," July 2011, http://www.revenue.ne.gov/incentiv/annrep/10an_rep/2010_incentives_annual_report_FINAL.pdf.

New Jersey

Quality: Delta Development Group, Inc. and HR&R Advisors, Inc. (for New Jersey Economic Development Authority), "New Jersey Urban Enterprise Zone Program Assessment," February 2011, http://www.state.nj.us/treasury/pdf/NJ%20Urban%20Enterprise%20Zone%20Program.pdf.

New Mexico

Quality: New Mexico State University Arrowhead Center (for New Mexico Legislative Finance Committee), "The Film Industry in New Mexico and The Provision of Tax Incentives," August 2008, http://www.nmlegis.gov/lcs/lfc/lfcdocs/film%20credit%20study%20TP&JP_08.pdf.

New York

Quality: Office of the New York State Comptroller, "Annual Performance Report on New York State's Industrial Development Agencies," July 2011, http://www.osc.state.ny.us/localgov/pubs/research/idaperformance2011.pdf.

North Carolina

Scope and quality: University of North Carolina Center for Competitive Economies (for the North Carolina General Assembly Joint Select Committee on Economic Development Incentives), "An Evaluation of North Carolina's Economic Development Incentive Programs: Final Report," July 2009, http://www.ncleg.net/documentsites/committees/JSCEDI/UNC%20C3E%202009%20final%20report%20to%20NCGA%20Joint%20Select%20Committee%20on%20Economic%20Development%20Incentives.pdf.

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Ohio

Scope and quality: Ohio Department of Development, "Ohio Economic Development Incentive Study," May 2009, http://www.development.ohio.gov/DepartmentReports/Reports/IncentiveStudy.pdf.

Oregon

Scope: Rating was based on the state's ongoing review process. For more information, see: http://www.leg.state.or.us/committees/commPages/2011i_jtax.html.

Quality: Industrial Economics, Inc. (for the Oregon Department of Energy), "Financial and Economic Impact of the Oregon Business Energy Tax Credit: An Analysis of Representative Projects Certified During the Period 2002 to 2009," May 2011, http://www.oregon.gov/ENERGY/docs/reports/BETC_Analysis_IEc_Report_to_ODOE_May2011.pdf.

Pennsylvania

Scope: Legislative Budget and Finance Committee of the Pennsylvania General Assembly, "Pennsylvania's Tax Credit Programs," June 2010, http://lbfc.legis.state.pa.us/reports/2010/49.PDF.

Quality: Pennsylvania Legislative Budget and Finance Committee, "An Evaluation of the Keystone Opportunity Zone (KOZ) Program," June 2009, http://lbfc.legis.state.pa.us/reports/2009/36.PDF.

Texas

Scope and quality: Texas Comptroller of Public Accounts, "An Analysis of Texas Economic Development Incentives 2010," April 2011, http://www.texasahead.org/reports/incentives/pdf/EconomicIncentives.pdf.

Virginia

Scope and quality: Virginia Joint Legislative Audit and Review Commission, "Review of the Effectiveness of Virginia Tax Preferences," November 2011, http://jlarc.virginia.gov/meetings/November11/TaxPref.pdf.

Washington

Scope: Rating was based on the state's ongoing review process. For more information, see: http://www.citizentaxpref.wa.gov/.

Quality: Washington Joint Legislative Audit and Review Committee, "Tax Preference Performance Review: Beef Processors," March 2007, http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2007/Documents/07-7.pdf.

Wisconsin

Quality: Wisconsin Department of Commerce, "Cost Benefit Analysis of Wisconsin Film Tax Credit Program," March 2009, http://commerce.wi.gov/COM/docs/COM-Film-Analysis-Presentation.pdf.

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OTHER TYPES OF KEY TAX INCENTIVE DOCUMENTS

Although this report focuses on state evaluations of tax incentives, states produce other reports about tax incentives that play an important role in the policy process. When these documents include evaluation, they are considered in our assessment. Examples of these other types of documents include:

Tax expenditure reports or budgets: These documents detail the fiscal impact of tax incentives. They vary in scope and quality, but the best ones—such as those produced by the District of Columbia, Minnesota, and Oregon—include critical information such as the fiscal cost, who benefits, and the purpose.

Fiscal notes: These are official estimates of the cost of new legislation. Estimating the cost of tax incentives can be challenging, but in the current fiscal climate, it is more important than ever to get it right.

Audit reports: Audits that include evaluation of the effectiveness of tax incentives are included in our assessment. Others focus on critical issues concerning the administration of tax incentives, such as whether recipients of incentives and state agencies that offer incentives are complying with eligibility rules.

Reports on economic development program activity: State legislatures often require a performance report on a specific tax incentive program. These are typically prepared by the implementing agency and include information on the businesses receiving the incentive and, in some cases, data on jobs as reported by businesses. These reports provide useful information for the legislature, but the jobs data reported often are not audited or reviewed for accuracy, and such documents generally do not address whether the incentive directly led to the creation of the jobs.

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Endnotes

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2 New Mexico State University Arrowhead Center (for New Mexico Legislative Finance Committee), "The Film Industry in New Mexico and The Provision of Tax Incentives," August 2008, http://www.nmlegis.gov/lcs/lfc/lfcdocs/film%20credit%20study%20TP&JP_08.pdf.

3 Ernst & Young (for New Mexico State Film Office and State Investment Council), "Economic and Fiscal Impacts of the New Mexico Film Production Tax Credit," January 2009, http://www.nmfilm.com/locals/downloads/nmfilmCreditImpactAnalysis.pdf.

4 Pew Center on the States interview with New Mexico State Senator Tim Keller, February 22, 2012.

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6 Pew Center on the States interview with Alan Levin, director, Delaware Economic Development Office, August 29, 2011.

7 Philip Mattera, Thomas Cafcas, Leigh McIlvaine, Andrew Seifter, and Kasia Tarczynska, "Money for Something: Job Creation and Job Quality Standards in State Economic Development Subsidy Programs," Good Jobs First, December 2011, http://www.goodjobsfirst.org/moneyforsomething.

8 Jennifer Burnett, "State Business Incentives: Trends and Options for the Future," Council of State Governments, October 2011, http://knowledgecenter.csg.org/drupal/system/files/StateBusinessIncentives2011.pdf.

9 Joseph Henchman, "More States Abandon Film Tax Incentives as Programs' Ineffectiveness Becomes More Apparent," Tax Foundation, June 2011, http://www.taxfoundation.org/news/show/27313.html.

10 Pew Center on the States interview with Suzanne Bump, Massachusetts state auditor, December 6, 2011.

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13 Pew Center on the States analysis. California Department of Finance, "Tax Expenditure Report 2011-2012," September 2011, http://www.dof.ca.gov/research/documents/Tax_ExpenditureRpt_11-12-Web.pdf.

14 Most of these states report some information about tax incentives, such as the recipients' names and the amounts of their payments or the total fiscal cost, but they have not evaluated the effectiveness of any incentive in recent years, according to Pew Center on the States analysis. See pages 33 and 35 for a description of what qualifies as an evaluation.

Note: All links were active as of March 26, 2012.

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17 Louisiana Department of Revenue, "Tax Exemption Budget 2011-2012," February 2011, http://revenue.louisiana.gov/forms/publications/TEB%282011%29.pdf.

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21 Marie Price, "What ruffles Dank's feathers? What he didn't hear at the latest tax credit reviews," *The Journal Record Legislative Report*, August 26, 2011, http://journalrecord.com/23rd-and-Lincoln/2011/08/26/what-ruffles-dank%E2%80%99s-feathers-what-he-didn%E2%80%99t-hear-at-the-latest-tax-credit-reviews/.

22 Pew Center on the States interview with New York State Senator Liz Krueger, September 30, 2011.

23 Pew Center on the States interview with Oregon State Senator Ginny Burdick, president pro tempore, Oregon Senate, December 13, 2011.

24 Pew Center on the States interview with Oregon State Representative Jules Bailey, co-chair, Joint Committee on Tax Credits, December 14, 2011.

25 For more information on HB 3672, see http://gov.oregonlive.com/bill/2011/HB3672/.

26 Pew Center on the States interview with Oregon State Representative Vicki Berger, co-chair, Joint Committee on Tax Credits, December 6, 2011.

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28 Before 1990, when property was exempted from the property tax, the result was that rates would rise on other property so there would be no revenue loss to schools and local governments. Now, some rates no longer adjust in that way, so there can be both a shift in property tax and a loss in revenue. The Strategic Investment Program is expected to raise property taxes by $40 million on other owners.

29 Pew Center on the States interview with Ruta Fanning, retired legislative auditor, Washington State Joint Legislative Audit and Review Committee, December 20, 2011. (Ms. Fanning served as an external adviser on this project.)

30 Pew Center on the States interview with Washington State Representative Gary Alexander, December 22, 2011.

31 Pew Center on the States interview with William Longbrake, chair, Washington State Citizen Commission for Performance Measurement of Tax Preferences, December 12, 2011.

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33 Pew Center on the States interview with Iowa State Senator Joe Bolkcom, co-chair, Legislative Tax Expenditure Committee, December 8, 2011.

34 Oklahoma Department of Commerce, "Quality Jobs," accessed March 16, 2012, http://www.okcommerce.gov/Site-Selection/Incentives/Quality-Jobs. Oklahoma Tax Commission, "Quality Jobs Incentive Payment Report," accessed March 16, 2012, http://www.tax.ok.gov/reports1.html.

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44 Minnesota Office of the Legislative Auditor, "Evaluation Report: JOBZ Program," February 2008, http://www.auditor.leg.state.mn.us/ped/pedrep/jobz.pdf.

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48 Pew Center on the States interview with Johan Salén, director of business development, Louisiana Economic Development, October 25, 2011.

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The Pew Center on the States is a division of The Pew Charitable Trusts that identifies and advances effective solutions to critical issues facing states. Pew is a nonprofit organization that applies a rigorous, analytical approach to improve public policy, inform the public, and stimulate civic life.

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Economic Development Tax Incentives

Overview

Why Tax Incentives Matter

States spend billions of dollars a year on tax credits, deductions and exemptions meant to encourage businesses to create or retain jobs and make investments. When designed and managed well, tax incentives can strengthen a state's economy. But Pew's research reveals that lawmakers often approve or continue incentives without knowing their potential cost or whether they are working. State leaders need better information to avoid unexpected budget challenges, identify effective incentives, and reform or end programs that are not meeting expectations.

See our Frequently Asked Questions page

How We Conduct Our Work

We study the policies and practices states have used to generate much-needed answers about the budget risks and economic returns of tax incentives. Based on this research, we work with leaders in selected states to advance policies that:

- Protect budgets from unexpected tax incentive costs;
- Evaluate all tax incentives on a regular schedule; and
- Inform lawmakers' policy choices with evidence from evaluations

Evaluating State Tax Incentives

- How to Inform Policy Choices
- How to Measure Economic Impact

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- How to Gauge Progress Toward Goals

Our Work

View All

Tax Incentive Programs

Issue Brief

Economic Development Tax Incentives

This report advises states on how to design and implement these laws, so that tax incentives are evaluated regularly and rigorously and so that lawmakers can use the findings to improve economic development policy. Read More ›

Tax Incentive Evaluation Law: State Fact Sheets

Fact Sheet

Economic Development Tax Incentives

From 2012 to 2014, 10 states and the District of Columbia passed laws that will require regular evaluation of tax incentives or will improve existing evaluation processes. As the passage of these 11 laws demonstrates, policymakers across the country are demanding better information. Read More ›

Evaluating the Effectiveness of State Tax Incentives

Opinion

Economic Development Tax Incentives

State leaders need better information to avoid unexpected budget challenges, identify programs that are effective, and modify or end programs that do not achieve their intended purpose. Read More ›

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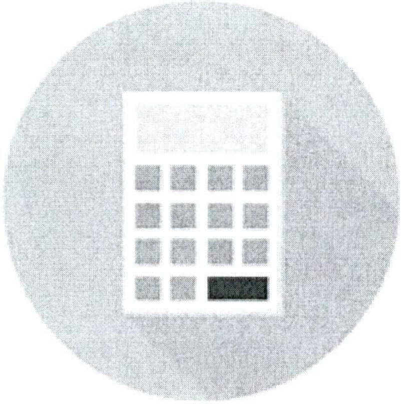
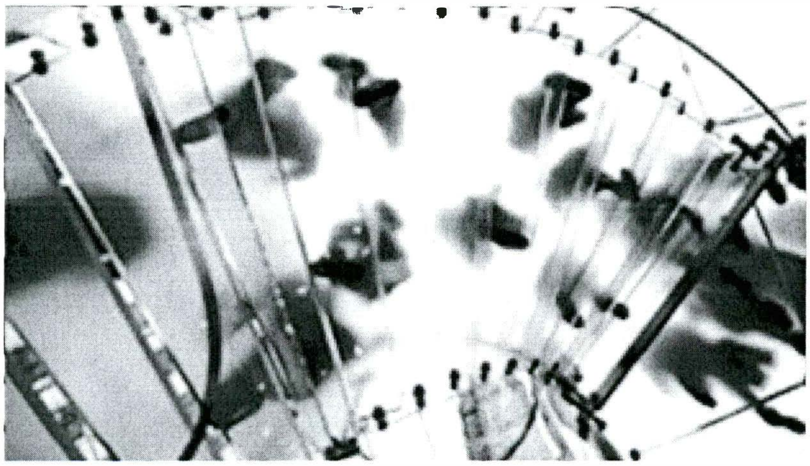


Fact Sheet

Strategies for Evaluating Tax Incentives



Report

Evidence Counts

Evaluating State Tax Incentives for Jobs and Growth

Featured Resource

Frequently Asked Questions About Economic Development Tax Incentives

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Related Experts

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

Jeff Chapman
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TOPICS

Fiscal And Economic Policy, Governing

PROJECTS

Economic Development Tax Incentives

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THE PEW CHARITABLE TRUSTS

REPORT

Evidence Counts

Evaluating State Tax Incentives for Jobs and Growth

April 12, 2012

Economic Development Tax Incentives

Policy makers spend billions of dollars annually on tax incentives for economic development, but no state ensures that policy makers rely on good evidence about whether these investments deliver a strong return. Often, states that have conducted rigorous evaluations of some incentives virtually ignore others or assess them infrequently. Other states regularly examine these investments, but not thoroughly enough.

The use of these investments appears to have grown substantially. Today, every state has at least one tax incentive program, and most have at least several. Tax incentives are policy choices with significant implications, especially at a time when most states are trying to rebuild their budgets and many have not regained the private-sector jobs lost during the Great Recession. If states do not base decisions on evidence, they could have less money to spend on other critical services. By not using effective incentives, states could miss opportunities to create jobs and support businesses.

A report by the Pew Center on the States concludes that 13 states are leading the way in generating much-needed answers about tax incentives' effectiveness. Twelve states have mixed results. Half the states have not taken the basic steps needed to know whether their incentives are effective. The study highlights a wealth of promising approaches states have taken to help lawmakers find those answers.

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Executive Summary

PEW CENTER ON THE STATES **INFOGRAPHIC**

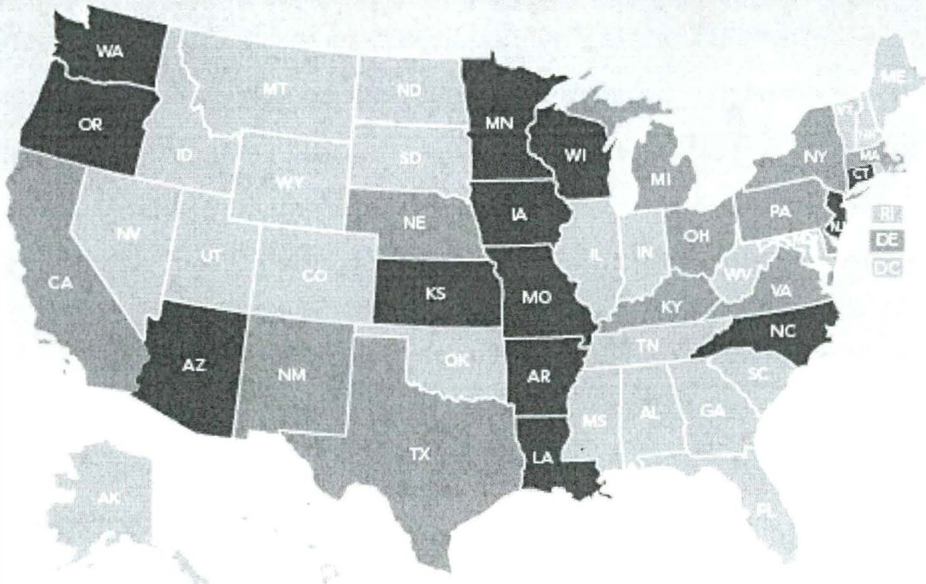
evidence counts

How well are states evaluating tax incentives for economic development?

13 ▲ Leading the way

12 ◆ Mixed results

26 ▼ Trailing behind



4 steps states can take for effective evaluations

Inform policy choices

Build evaluation of incentives into policy and budget deliberations to ensure lawmakers use the results.

Include all major tax incentives

Establish a strategic and ongoing schedule to review all tax incentives for economic development.

Measure economic impact

Draw clear conclusions

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Ask and answer the right questions using good data and analysis.

Determine whether tax incentives are achieving the state's goals.

SOURCE: Pew Center on the States analysis

Pew Center on the States, 2012
Infographic by Carla Uriona, Evan Potler and Josh Goodman

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TOPICS

Fiscal And Economic Policy, Federal Policy, Governing

PROJECTS

Economic Development Tax Incentives

Economic Development Association of North Dakota

EDND

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#5

Testimony of Keith Lund, President
Economic Development Association of North Dakota
In Support of SB 2057
January 14, 2015

Chairman Cook and members of the Senate Finance and Taxation Committee, I'm Keith Lund, vice president of the Grand Forks Region Economic Development Corporation and president of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support for SB 2057, which establishes a process for evaluating state economic development tax incentives.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

Our organization is supportive of efforts to demonstrate the value of the state's investment in business support programs to grow and diversify North Dakota's economy. In addition, I would like to reiterate EDND's willingness to be a resource in making sure tax incentives are meeting legislative intent and effectively meeting the changing needs of our economy. We too want to assure North Dakota taxpayers these investments are a return on their investment.

EDND was involved in the meetings related to the development of this bill during the interim. We met with representatives from the North Dakota Department of Commerce, North Dakota Tax Department, PEW Charitable Trusts, Center for Regional Competiveness, Chairman Cook and Senator Grindberg, and other key stakeholders.

Our board and membership have reviewed the bill, and we believe this is a unique model other states will follow in which all state economic development tax incentives would be evaluated by the legislature every six years. And, the concept is included in EDND's 2015 Legislative Agenda.

EDND supports a periodic review of these investments and agrees that it is important for a number of reasons. It demonstrates to the public that these investment decisions are not taken lightly, and it confirms that the investments have a net gain to the state.

#5.2

Although much of the information important to this task is already collected, it may not be compiled and comprehensively analyzed. In other cases, the information may not be available due to confidentiality issues. Any analysis of the effectiveness of tax incentives needs to consider what information is required and address any impediments in attaining the information. We believe the companion bill, HB 1060, will help address these challenges.

EDND is supportive of creating and appropriately resourcing a system whereby tax incentives are placed on a regular schedule for review against pre-established goals. EDND is willing to continue to work with legislators and state agencies to develop a matrix and goals to effectively evaluate our economic development tax incentives.

Thank you for the opportunity to appear before you today to express our support for SB 2057.

#6

Greater North Dakota Chamber

Testimony of Jon Godfread
Greater North Dakota Chamber of Commerce
SB 2057
January 14, 2015

Mr. Chairman and members of the committee, my name is Jon Godfread, I am the Vice President of Government Affairs at the Greater North Dakota Chamber, the champions for business in North Dakota. GNDC is working on behalf of our more than 1,100 members, to build the strongest business environment in North Dakota. GNDC also represents the National Association of Manufacturers and works closely with the U.S. Chamber of Commerce. As a group we stand in support of SB 2057.

The GNDC supports the proactive legislation to periodically review our business tax incentives to ensure they are meeting legislative intent are both working for the business community as well as the people of North Dakota.

The periodic review of these investments is good public policy as it seeks to not only demonstrate the effectiveness of a particular tax incentive, it also ensure that the legislature is being a good steward of the taxpayers' dollars. This review will also allow the business community to comment on what is working, what isn't, and to offer some any changes that may make a particular program more effective.

This periodic review may also help answer questions from taxpayers on just what a particular incentive is doing, and give the business community the opportunity to show the value of the incentive to the legislature and the public. Increased transparency and communication would be an expected by product of this legislation.

The GNDC also supports HB 1060 which we believe to be a companion bill to this bill, which would address some of the confidentiality concerns and information sharing concerns that have been identified.

Thank you for allowing me to testify, we would support a DO PASS recommendation on SB 2056. I would now be happy to attempt to answer any questions.

Champions for Business

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ECONOMIC DEVELOPMENT ASSOCIATION OF NORTH DAKOTA
EDND
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Testimony of Connie Ova, Vice President
Economic Development Association of North Dakota
In Support of SB 2057
March 9, 2015

Chairman Headland and members of the House Finance and Taxation Committee, I'm Connie Ova, CEO of the Jamestown/Stutsman Development Corporation and vice president of the Economic Development Association of North Dakota (EDND). On behalf of EDND, I would like to express our support for SB 2057, which establishes a process for evaluating state economic development tax incentives.

EDND represents more than 80 state economic development organizations on the front line of economic development efforts throughout North Dakota. The primary purpose of the organization is to support the creation of new wealth and the diversification of North Dakota's economy.

Our organization is supportive of efforts to demonstrate the value of the state's investment in business support programs to grow and diversify North Dakota's economy. In addition, I would like to reiterate EDND's willingness to be a resource in making sure tax incentives are meeting legislative intent and effectively meeting the changing needs of our economy. We too want to assure North Dakota taxpayers these investments are a return on their investment.

EDND was involved in the meetings related to the development of this bill during the interim. We met with representatives from the North Dakota Department of Commerce, North Dakota Tax Department, PEW Charitable Trusts, Center for Regional Competiveness, Chairman Cook and Senator Grindberg, and other key stakeholders.

Our board and membership believe this is a unique model other states will follow in which all state economic development tax incentives would be evaluated by the legislature every six years. And, the concept is included in EDND's 2015 Legislative Agenda.

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EDND supports a periodic review of these investments and agrees that it is important for a number of reasons. It demonstrates to the public that these investment decisions are not taken lightly, and it confirms that the investments have a net gain to the state.

Although much of the information important to this task is already collected, it may not be compiled and comprehensively analyzed. In other cases, the information may not be available due to confidentiality issues. Any analysis of the effectiveness of tax incentives needs to consider what information is required and address any impediments in attaining the information. We believe the companion bill, HB 1060, will help address these challenges.

EDND is supportive of creating and appropriately resourcing a system whereby tax incentives are placed on a regular schedule for review against pre-established goals. EDND is willing to continue to work with legislators and state agencies to develop a matrix and goals to effectively evaluate our economic development tax incentives.

Thank you for the opportunity to appear before you today to express our support for SB 2057.

Greater North Dakota Chamber

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#2

Testimony of Laney Herauf
Greater North Dakota Chamber of Commerce
SB 2057
March 09, 2015

Mr. Chairman and members of the committee, my name is Laney Herauf; I am the Government and Regulatory Affairs Specialist for the Greater North Dakota Chamber. GNDC is working on behalf of our more than 1,100 members, to build the strongest business environment in North Dakota. GNDC also represents the National Association of Manufacturers and works closely with the U.S. Chamber of Commerce. As a group we stand in support of House Bill 2057.

The Greater North Dakota Chamber has long supported and lobbied for responsible tax incentives. They play a vital role in a healthy economy. It is important, however, that they follow the intent and ultimately work toward the intended goal. Tasking the legislature with ensuring the goals and legislative intent are met, we can be more certain that the incentives are working. Investments by North Dakota citizens should not be taken lightly. This bill makes sure that the investments are worthwhile and solving a need.

At the same time reviewing these incentives will provide the business community the opportunity to show what is working, how it is working and a venue to discuss any potential changes that may need to be made to the incentives. A process we can certainly support.

I respectfully request a DO PASS recommendation on SB 2057.

Champions for Business

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Adopted by the Finance and Taxation Committee
March 9, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2057

Page 3, after line 16, insert:

"s. Any economic development tax incentive created by the sixty-fourth legislative assembly."

Renumber accordingly