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State Evaluation of Economic Development Incentives: Progress Made and Challenges Remaining

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Why evaluate tax incentives



Tax incentives are one of states' primary economic development tools

Tax incentives collectively cost states billions of dollars a year

Evaluation is a proven way to improve the effectiveness of incentives

Evaluations can lead to a more constructive conversation about incentives

A report from  THE PEW CHARITABLE TRUSTS

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How States Are Improving Tax Incentives for Jobs and Growth

A national assessment of evaluation practices



Three steps to effective evaluation

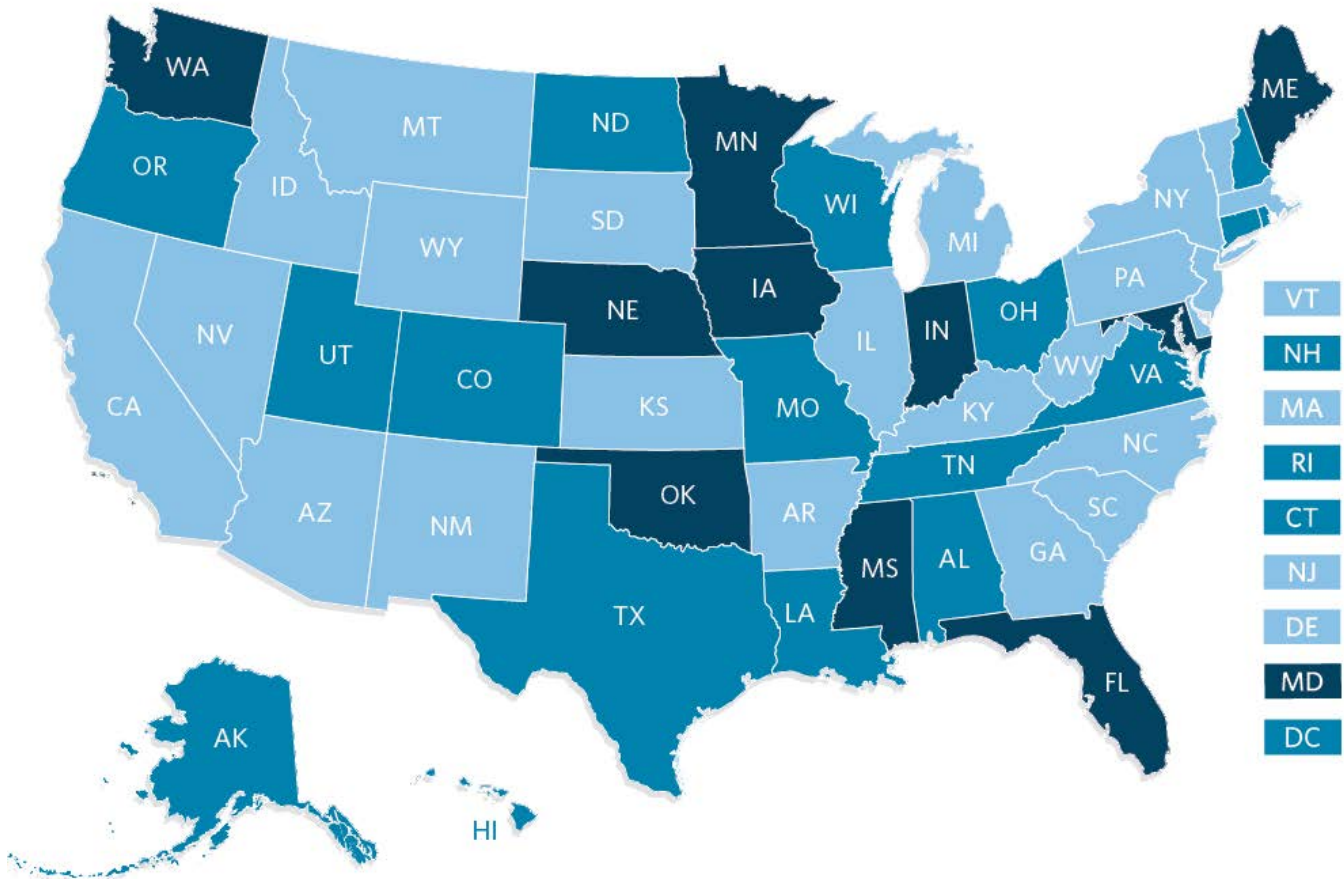


Step 1: Make a plan

Step 2: Measure the impact

Step 3: Inform policy choices

State tax incentive evaluation ratings



10 leading 18 making progress 23 trailing

Maine



Key points:

- Maine is **leading** other states because it has a well-designed plan to regularly evaluate tax incentives, experience in producing quality evaluations that rigorously measure economic impact, and a process for informing policy choices.
- By tasking a legislative program evaluation office with evaluating incentives, Maine's law follows a proven approach.
- In the first round of evaluations, the state is studying the New Markets Capital Investment Program, which is subject to much debate.

Year enacted: 2015.^a

Who evaluates: Office of Program Evaluation and Government Accountability.

Length of review cycle: Six years.

In 2013, as Maine struggled to balance its budget, lawmakers charged a special Tax Expenditure Review Task Force with recommending tax credits, exemptions, and deductions that could be reduced or eliminated to save \$40 million. Finding those savings proved exceptionally difficult, however, for a simple reason: As the task force itself acknowledged, without evaluations in place, they had little basis for determining which tax expenditures were expendable.^b The experience drove home for lawmakers the need for better information, something that stands to be provided by a 2015 law requiring the Legislature's Office of Program Evaluation and Government Accountability (OPEGA) to regularly evaluate tax incentives and other credits, exemptions, and deductions.^c

By tasking OPEGA with evaluation, Maine is following a proven approach. Legislative program evaluation or audit offices in Washington and Florida have been producing high-quality evaluations for years. With a nonpartisan staff experienced at studying government programs in-depth, OPEGA is well-positioned to do the same.

OPEGA's first evaluation under the process, published in 2017, examined the New Markets Capital Investment Program. The evaluation included an examination of the program's goals and whether they have been achieved, rigorous analysis of its economic impact, and detailed recommendations for improving its effectiveness.^d

Well-designed evaluation plans...



- Include all major tax incentives
- Task non-partisan professional staff with conducting the analyses
- Set a strategic schedule

High-quality evaluations include...



● A description of the incentive, its history, and goals

● An assessment of the incentive's design and administration

● An estimate of the incentive's economic and fiscal impact

● Policy recommendations

Evaluation excerpt: Indiana

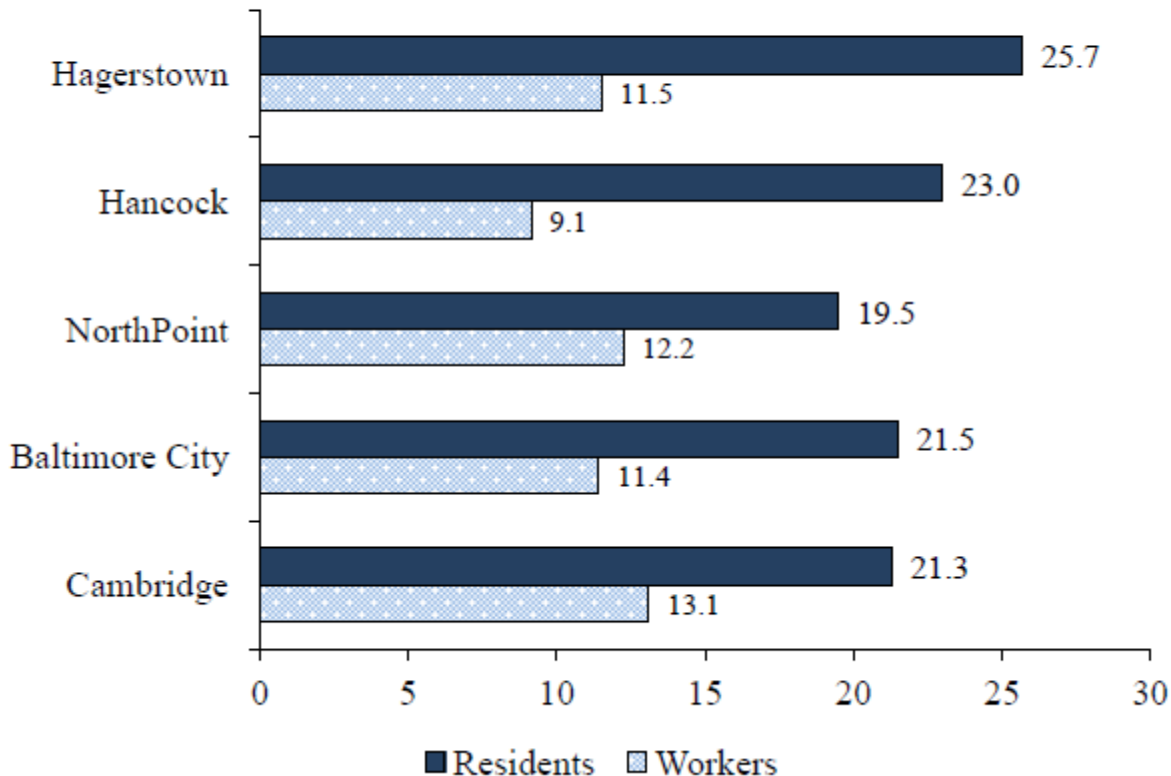


Table 12: Taxpayer Discount Scenario – Solar-Powered Roof Vent/Fan Installation Deduction

Item	Tax Incentive
Solar Vent Fan Cost	\$600
Installation Cost	<u>300</u>
Total Cost	\$900
Deduction Amount (50% of Total Cost)	<u>(450)</u>
Indiana State and Local Tax Savings	<u>(\$21)</u>
Total Projected Cost After Savings	\$879
Discount %	2.33%

Evaluation excerpt: Maryland

Exhibit 3.9
Percentage of Enterprise Zone Workers and Residents without a High School Diploma
Zones with the Highest Education Disadvantage



Evaluation excerpt: Missouri



Recommendations

The DED:

- 1.1 Evaluate and consider decreasing the percentage of eligible costs qualifying for BRTCs.
- 1.2 Promulgate state regulations to establish procedures requiring BRTC applicants to procure project activities competitively and to select the lowest and best bid, and rules to define and limit conflicts of interest. We also recommend the DED maintain a database of historical cost information for BRTC projects.
- 1.3 Require certification of actual project costs by a licensed engineer, architect, and/or certified public accountant.
- 1.4 Reduce the authorization award associated with the NWP project by \$2,265,000 and establish policies and procedures to handle scrap proceeds.

Options to inform policy choices



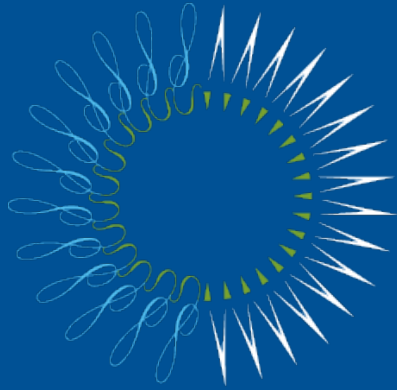
- Create new legislative committees
- Utilize existing committee structure
- Gubernatorial recommendations with legislative review
- Sunsets

With evaluations, states can...

- Make subtle changes to incentives to increase their return on investment

- Identify programs that are working well, so that the state can invest in them with confidence

- Repeal or replace ineffective or obsolete incentives



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