

THE
PEW
CENTER ON THE STATES

Evidence Counts



Evaluating State Tax Incentives
for Jobs and Growth

PLAINTIFFS'
EX. 320

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.

PEW CENTER ON THE STATES

Susan K. Urahn, managing director

PROJECT TEAM

Research and writing	Editorial	Communications	Design and web
Brandon Brockmyer	Lori Grange	Nicole Dueffert	Jennifer Peltak
Jeff Chapman	Scott Greenberger	Liz Voyles	Evan Potler
Josh Goodman		Gaye Williams	Carla Uriona
Denise Wilson			
Will Wilson			
Robert Zahradnik			

EXTERNAL REVIEWERS

The following experts have reviewed the report for accuracy and verify that the conclusions are well-founded and based on a sound methodology. Except where noted, they also provided valuable guidance in developing the criteria for rating the states. Organizations are listed for affiliation purposes only.

Bill Allaway, president, TTARA Research Foundation	Ruta Fanning, retired legislative auditor, Washington State Joint Legislative Audit and Review Committee
Jim Anderson, president, Springfield, Missouri Area Chamber of Commerce	Peter Fisher, research director, Iowa Policy Project, and professor emeritus of urban and regional planning, University of Iowa
Timothy J. Bartik (reviewer only), senior economist, W.E. Upjohn Institute	Dan Gorin (reviewer only), former chief economist of the Oklahoma Department of Commerce
Carl Davis, senior policy analyst, Institute on Taxation and Economic Policy	

ACKNOWLEDGMENTS

Valuable research support was provided by the following Pew staff members: Ike Emejuru, John Gramlich, Ricky Harrison, Vicki Kleger, and Aidan Russell. We also thank Samuel Derheimer, Sara Dube, Emily Lando, Michele Mariani Vaughn, Lori Metcalf, Abigail Sylvester, Gary VanLandingham, and Darcy White for their insights. Finally, we thank the many state officials and other experts in the field who were so generous with their time, knowledge, and expertise.

This report is intended for educational and informational purposes. References to specific policy makers or companies have been included solely to advance these purposes and do not constitute an endorsement, sponsorship, or recommendation by The Pew Charitable Trusts.

©2012 The Pew Charitable Trusts. All Rights Reserved.

901 E Street NW, 10th Floor
Washington, DC 20004

2005 Market Street, Suite 1700
Philadelphia, PA 19103

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

Contents

Executive Summary	1
The Problem—and Why It Matters.	5
How Are States Doing?	9
Informing Policy Choices	12
Including All Major Tax Incentives.	17
Measuring Economic Impact	19
Drawing Clear Conclusions	27
Conclusion	31
Appendix A: State-by-State Ratings.	32
Appendix B: Methodology	33
Appendix C: State-by-State Evaluations	38
Endnotes.	43
Index of References to States.	48

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

Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth

Overall: How are states doing?

13

Leading the way

States meeting both criteria for scope of evaluation and/or both criteria for quality of evaluation.

12

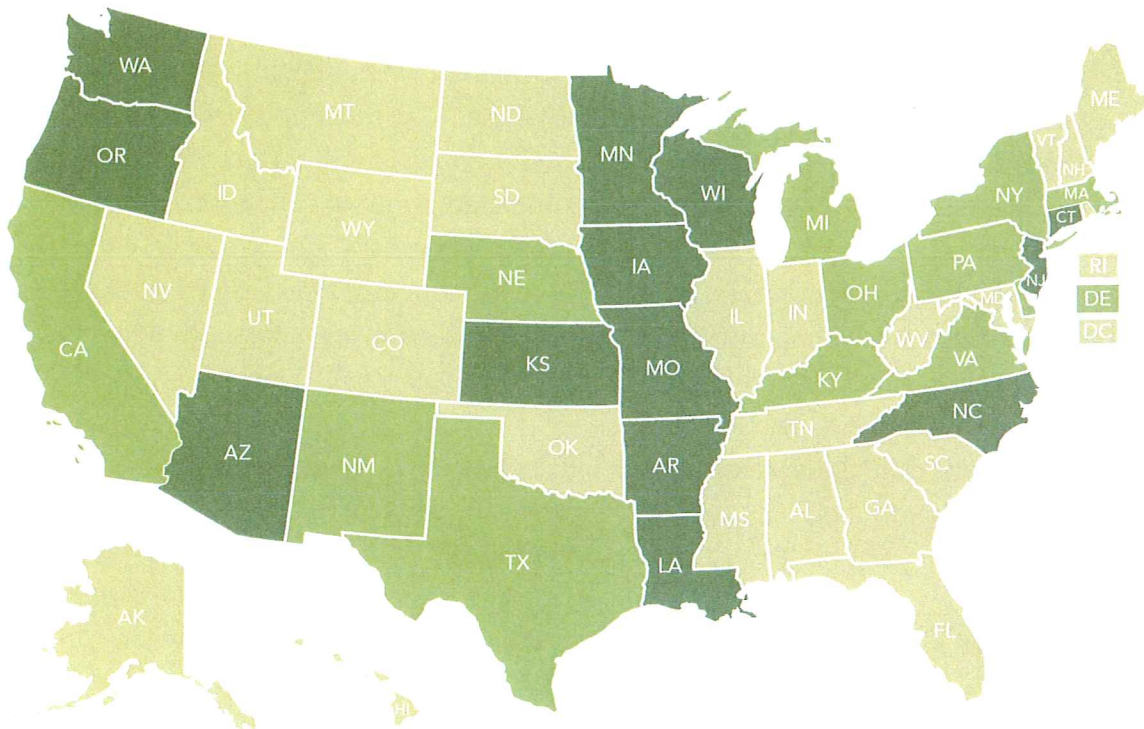
Mixed results

States meeting only one of the criteria for scope and/or quality of evaluation.

26

Trailing behind

States not meeting any of the criteria for scope or quality of evaluation.



SOURCE: Pew Center on the States analysis

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.

Four criteria for effective evaluation

Effective evaluations:

Inform policy choices



What states can do:

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

A leading example:

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.

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

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.

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

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

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.

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			Rating the quality of evaluation		
SCOPE RATING	Inform policy choices	Include all tax incentives	QUALITY RATING	Measure economic impact	Draw clear conclusions
Leading the way	✓	✓	Leading the way	✓	✓
Mixed results		✓	Mixed results		✓
Trailing behind			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.

Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth

Overall: How are states doing?

13

Leading the way

12

Mixed results

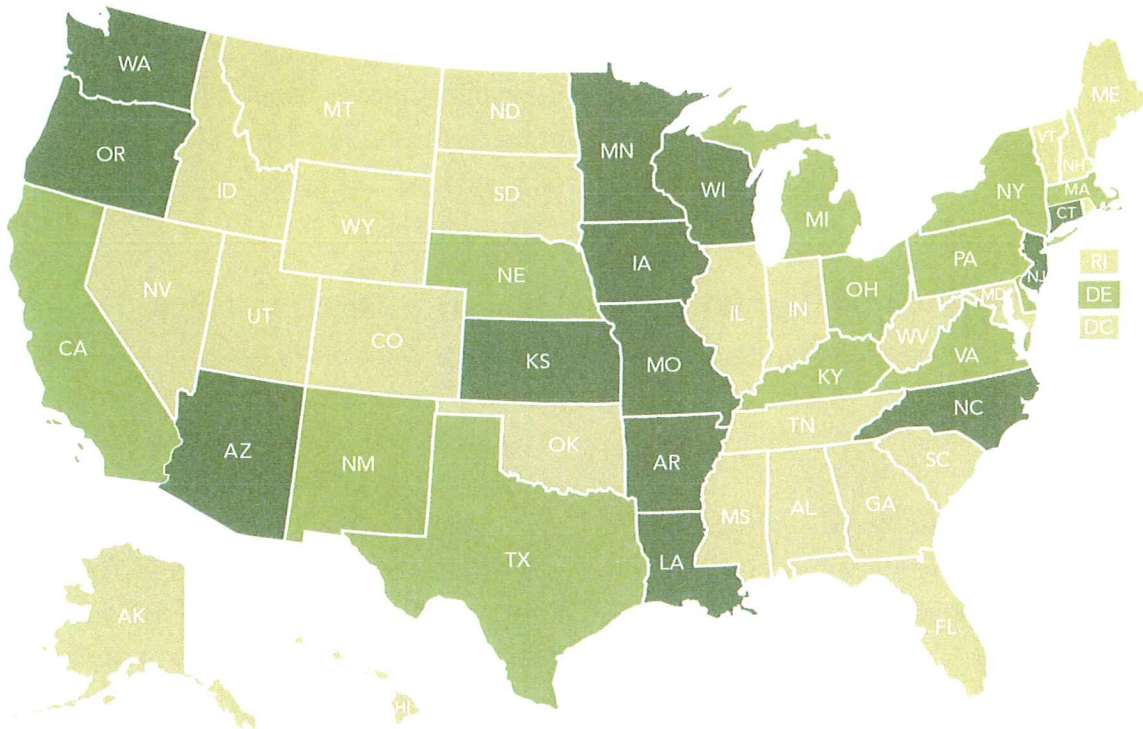
26

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

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

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.

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

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.

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

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



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:

- **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:** 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?

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.

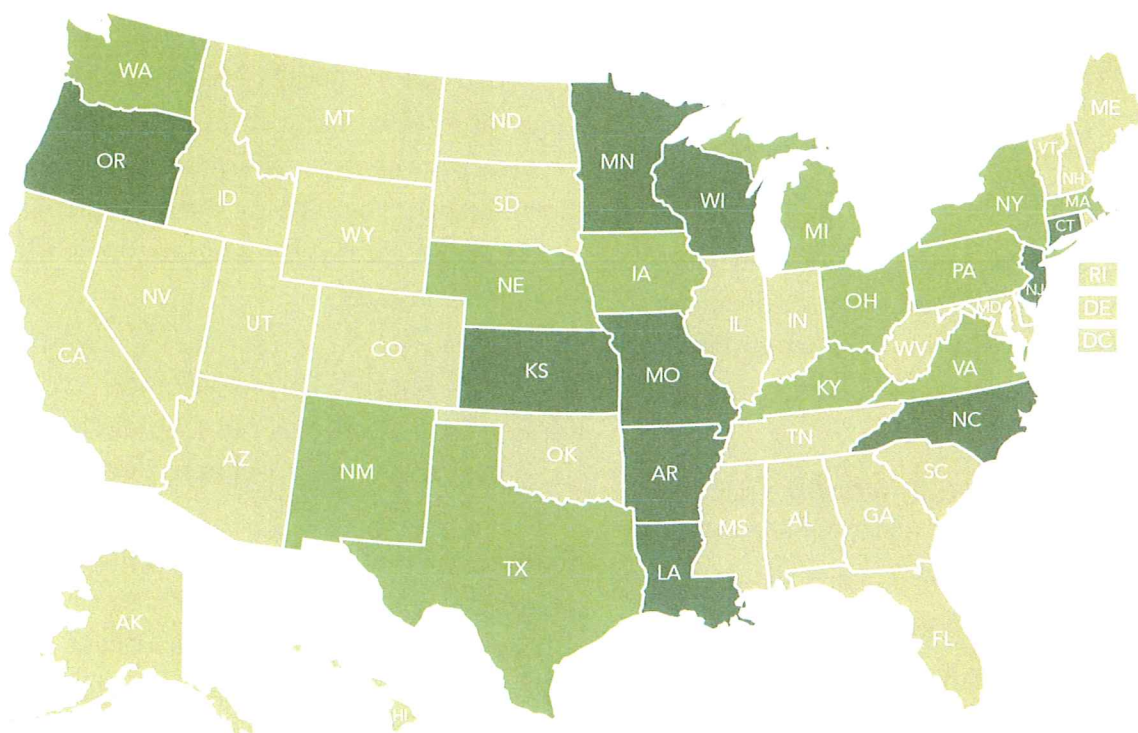
There is no simple way to isolate the impact of tax incentives, but a number of states use creative approaches to doing so.

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

10

12

States that either did not conduct any evaluations or whose best evaluation did not meet either criterion.



SOURCE: Pew Center on the States analysis

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

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.

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

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

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



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

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

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.

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.

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.

EVIDENCE COUNTS

State-by-State Ratings

SCOPE

QUALITY

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			●			●	●

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

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

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.

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.

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.

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.

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

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.

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>.

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>.

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.citizen taxpref.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>.

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.

Endnotes

- 1 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 (New Mexico Appendix)," Good Jobs First, December 2011, <http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneyforsomethingnm.pdf>.
- 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/lfo/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.
- 5 National Conference of State Legislatures, "State Budget Update: Fall 2011," December 2011, <http://www.ncsl.org/issues-research/budget/state-budget-update-fall-2011.aspx>. Pew Center on the States analysis of Bureau of Labor Statistics data.
- 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.
- 11 Fiscal Research Center of the Andrew Young School of Policy Studies at Georgia State University (for the Georgia Department of Audits and Accounts), "Georgia Tax Expenditure Report for FY2013," December 2011, <http://www.open.georgia.gov/reports/GeorgiaTaxExpenditures2013.pdf>.
- 12 Special Council on Tax Reform and Fairness for Georgians, "2010 Special Council on Tax Reform and Fairness for Georgians Recommendations," January 2011, http://fiscalresearch.gsu.edu/taxcouncil/downloads/FINAL_REPORT_Jan_7_2011.pdf.
- 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.

- 15 Minnesota Office of the Legislative Auditor, "Evaluation Report: JOBZ Program," February 2008, <http://www.auditor.leg.state.mn.us/ped/pedrep/jobz.pdf>.
- 16 Louisiana Economic Development, "Enterprise Zone Program 2009 Annual Report," March 2010, http://www.louisianaeconomicdevelopment.com/downloads/2009_Annual_Report_Enterprise_Zone.pdf.
- 17 Louisiana Department of Revenue, "Tax Exemption Budget 2011-2012," February 2011, <http://revenue.louisiana.gov/forms/publications/TEB%282011%29.pdf>.
- 18 California Legislative Analyst's Office, "California's Enterprise Zones," February 2011, http://www.lao.ca.gov/handouts/econ/2011/CA_EZ_2_7_11.pdf.
- 19 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>.
- 20 Ohio's Metropolitan Chambers of Commerce and the Ohio Chamber of Commerce, "Redesigning Ohio: Transforming Government into a 21st Century Institution," December 2010, <http://www.ohiochamber.com/dococc/Polycypolitics/-pdf/RedesigningOhioFINAL12-2010.pdf>.
- 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.
- 27 Oregon Department of Revenue and Oregon Department of Administrative Services, "State of Oregon 2011-2013 Tax Expenditure Report," February 2011, <http://www.oregon.gov/DOR/STATS/docs/ExpR11-13/tax-expenditure-report-2011-2013.pdf>.
- 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.
- 32 Pew Center on the States interview with Arizona State Representative Javan "J.D." Mesnard, co-chair, Joint Legislative Income Tax Credit Review Committee, December 15, 2011.
- 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>.

- 35 Oregon lawmakers have a system for reviewing tax credits every six years. Additionally, state agencies are required to evaluate tax incentives they administer in a report that comes out every two years, but many of those evaluations offer few details.
- 36 Pew Center on the States interview with Washington State Representative Gary Alexander, December 22, 2011.
- 37 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.
- 38 Missouri Tax Credit Review Commission, "About the Commission," accessed March 16, 2012, <http://tcrc.mo.gov/>.
- 39 Missouri Tax Credit Review Commission, "Report of the Missouri Tax Credit Review Commission," November 2010, <http://tcrc.mo.gov/pdf/TCRCFinalReport113010.pdf>.
- 40 Ohio Department of Development, "Ohio Economic Development Incentive Study," May 2009, <http://www.development.ohio.gov/DepartmentReports/Reports/IncentiveStudy.pdf>.
- 41 Pew Center on the States interview with Steve Schoeny, former director, Strategic Business Investment Division, Ohio Department of Development, December 9, 2011.
- 42 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>.
- 43 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_IEd_Report_to_ODOE_May2011.pdf.
- 44 Minnesota Office of the Legislative Auditor, "Evaluation Report: JOBZ Program," February 2008, <http://www.auditor.leg.state.mn.us/ped/pedrep/jobz.pdf>.
- 45 Minnesota Department of Employment and Economic Development, "Job Opportunity Building Zone (JOBZ) Program Changes & Clarifications," October 2008, http://www.positivelyminnesota.com/Business/Financing_a_Business/JOBZ_-_Tax_Free_Development/State_Register_Guidelines.pdf.
- 46 Hawaii Film Office, "Incentives & Tax Credits," accessed March 16, 2012, <http://www.hawaiifilmoffice.com/incentives-tax-credits>. Will Wilson, "Oscar night secret: Tax breaks for films go undisclosed in many states," Stateline.org, February 22, 2012, <http://www.stateline.org/live/details/story?contentId=633630>.
- 47 Louisiana Economic Development, "Enterprise Zone Program 2009 Annual Report," March 2010, http://www.louisianaeconomicdevelopment.com/downloads/2009_Annual_Report_Enterprise_Zone.pdf.
- 48 Pew Center on the States interview with Johan Salén, director of business development, Louisiana Economic Development, October 25, 2011.
- 49 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>.
- 50 Pew Center on the States interview with Zach Brandon, former deputy secretary, Wisconsin Department of Commerce, December 7, 2011.
- 51 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.
- 52 Missouri State Auditor, "Analysis of the New Generation Cooperative Incentive Tax Credit Program," February 2007, <http://www.auditor.mo.gov/press/2007-06.pdf>.

- 53 Pew Center on the States interview with Tony Stafford, executive director, Missouri Agricultural and Small Business Development Authority, February 14, 2012.
- 54 New Jersey Economic Development Authority, "Urban Transit Hub Tax Credit Program Approved Projects," accessed March 16, 2012, http://www.njeda.com/web/pdf/HUB_Activity.pdf. New Jersey Economic Development Authority, "Financing Programs – Urban Transit Hub Tax Credit Program," accessed March 16, 2012, http://www.njeda.com/web/Aspx_pg/Templates/Npic_Text.aspx?Doc_Id=888&menuid=1295&topid=718&levelid=6&midid=1175. Tenants in qualified buildings are also eligible.
- 55 Pew Center on the States interview with Kazim Ozyurt, director, Office of Tax Policy Analysis, Massachusetts Department of Revenue, October 27, 2011.
- 56 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>.
- 57 Pew Center on the States interview with Jason Jolley, senior research director, Carolina Center for Competitive Economies, September 22, 2011.
- 58 Angela Gullickson and Mike Lipsman, "Iowa's Tax Credit Tracking and Analysis Program: The History, the Purpose, and the Implementation," Federation of Tax Administrators Revenue Estimating and Tax Research Conference, September 2008, http://www.taxadmin.org/fta/meet/08rev_est/papers/lipsman_gullickson_paper.pdf.
- 59 Iowa Department of Revenue, "Iowa's Research Activities Tax Credit - Tax Credits Program Evaluation Study," December 2011, <http://www.iowa.gov/tax/taxlaw/RAC2011.pdf>.
- 60 New Jersey Department of the Treasury Division of Taxation, "A Report on Tax Expenditures in New Jersey," February 2012, <http://www.state.nj.us/treasury/taxation/pdf/TaxExpenditureReportFY2013.pdf>. Hugh Morley, "Bill would add \$1 billion to NJ tax break fund," *Bergen County Record*, February 7, 2012, http://www.northjersey.com/news/state/138890524__1_million_NJ_tax_break_hike_proposed.html?c=y&page=1.
- 61 New Jersey Economic Development Authority, "Financing Programs – Urban Transit Hub Tax Credit Program," accessed March 16, 2012, http://www.njeda.com/web/Aspx_pg/Templates/Npic_Text.aspx?Doc_Id=888&menuid=1295&topid=718&levelid=6&midid=1175.
- 62 New Jersey Economic Development Authority, "NJEDA Economic Impact Model to Determine Net Benefit Test Eligibility," July 2010, <http://www.njeda.com/web/pdf/economicimpactmodelsmary.pdf>.
- 63 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/decdec_sb_501_sec_27_report_12-30-2010_final.pdf.
- 64 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_IEdc_Report_to_ODOE_May2011.pdf.
- 65 A state does not forfeit revenue when it gives a tax credit to a company that, for example, would not have located in-state without the incentive. However, business decisions are more complex, so the possibility of revenue loss should be considered in evaluations.
- 66 Massachusetts Department of Revenue, "A Report on the Massachusetts Film Industry Tax Incentives," November 2011, <http://www.mass.gov/dor/docs/dor/news/2011filmcentivereport.pdf>.
- 67 Ibid.

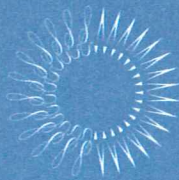
- 68 Frank Phillips, "Film perks may be shortchanging the state," *Boston Globe*, July 4, 2009, http://www.boston.com/news/local/massachusetts/articles/2009/07/04/report_says_tax_breaks_help_hollywood_do_little_for_massachusetts/.
- 69 ECONorthwest (for the Oregon Department of Energy), "Economic Impacts of Oregon Energy Tax Credit Programs in 2007 and 2008 (BETC/RETC)," February 2009, http://www.oregon.gov/ENERGY/CONS/docs/BETC_RETC_Impacts-020209_FINAL.pdf?ga=t.
- 70 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>.
- 71 Pew Center on the States interview with Philip Durgin, executive director, Pennsylvania Legislative Budget and Finance Committee, September 23, 2011.
- 72 Pew Center on the States interview with Stephen Moret, secretary, Louisiana Economic Development, November 30, 2011.
- 73 Louisiana Economic Development, "Quality Jobs Program 2009 Report," December 2010, http://www.louisianaeconomicdevelopment.com/downloads/2009_Annual_Report_Quality_Jobs.pdf.
- 74 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>.
- 75 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>.
- 76 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/documents/sites/committees/JSCEDI/UNC%20C3E%202009%20final%20report%20to%20NCGA%20Joint%20Select%20Committee%20on%20Economic%20Development%20Incentives.pdf>.
- 77 Missouri State Auditor, "Analysis of the New Generation Cooperative Incentive Tax Credit Program," February 2007, <http://www.auditor.mo.gov/press/2007-06.pdf>.
- 78 Minnesota Office of the Legislative Auditor, "Evaluation Report: JOBZ Program," February 2008, <http://www.auditor.leg.state.mn.us/ped/pedrep/jobz.pdf>.
- 79 Minnesota Department of Employment and Economic Development, "Job Opportunity Building Zone (JOBZ) Program Changes & Clarifications," October 2008, http://www.positivelyminnesota.com/Business/Financing_a_Business/JOBZ_-_Tax_Free_Development/State_Register_Guidelines.pdf.
- 80 Maryland Department of Business and Economic Development, "Maryland Enterprise Zones," accessed March 16, 2012, <http://www.choosemaryland.org/businessresources/pages/enterprisezones.aspx>.
- 81 Nebraska Department of Revenue, "2010 Tax Expenditure Report," October 2010, http://www.revenue.ne.gov/tax_exp/2010/2010-4-731.pdf.
- 82 Pew Center on the States interview with Kimberly K. Conroy, deputy tax commissioner, Nebraska Department of Revenue, August 16, 2011.
- 83 Pew Center on the States interview with Iowa State Senator Joe Bolkcom, co-chair, Legislative Tax Expenditure Committee, December 8, 2011.

INDEX OF REFERENCES TO STATES

Alabama: <i>p.7, 32, 34</i>	Montana: <i>p.7, 32, 34</i>
Alaska: <i>p.7, 32, 34</i>	Nebraska: <i>p.17, 29, 30, 32, 34, 40</i>
Arizona: <i>p.3, 10, 12, 16, 17, 32, 34, 38</i>	Nevada: <i>p.7, 32, 34</i>
Arkansas: <i>p.17, 22, 32, 34, 38</i>	New Hampshire: <i>p.7, 32, 34</i>
California: <i>p.7, 8, 17, 32, 34, 38</i>	New Jersey: <i>p.23, 26, 32, 34, 40</i>
Colorado: <i>p.32, 34</i>	New Mexico: <i>p.5, 32, 34, 40</i>
Connecticut: <i>p.3, 4, 17, 18, 23, 25, 26, 32, 34, 39</i>	New York: <i>p.12, 32, 34, 40</i>
District of Columbia: <i>p.7, 32, 33, 34</i>	North Carolina: <i>p.24, 28, 32, 34, 40</i>
Delaware: <i>p.6, 17, 32, 34, 39</i>	North Dakota: <i>p.32, 34</i>
Florida: <i>p.32, 34</i>	Ohio: <i>p.8, 18, 32, 34, 41</i>
Georgia: <i>p.7, 32, 34</i>	Oklahoma: <i>p.8, 17, 32, 34</i>
Hawaii: <i>p.21, 32, 34</i>	Oregon: <i>p.1, 4, 12, 14, 15, 16, 17, 21, 25, 26, 32, 34, 41, 42</i>
Idaho: <i>p.7, 32, 34</i>	Pennsylvania: <i>p.8, 27, 32, 34, 41</i>
Illinois: <i>p.7, 32, 34</i>	Rhode Island: <i>p.32, 34</i>
Indiana: <i>p.7, 32, 34</i>	South Carolina: <i>p.32, 34</i>
Iowa: <i>p.3, 12, 16, 17, 19, 24, 30, 32, 34, 39</i>	South Dakota: <i>p.7, 32, 34</i>
Kansas: <i>p.22, 32, 34, 39</i>	Tennessee: <i>p.7, 32, 34</i>
Kentucky: <i>p.32, 34, 39</i>	Texas: <i>p.22, 32, 34, 41</i>
Louisiana: <i>p.3, 4, 7, 8, 22, 27, 32, 34, 39</i>	Utah: <i>p.7, 32, 34</i>
Maine: <i>p.7, 32, 34</i>	Vermont: <i>p.7, 32, 34</i>
Maryland: <i>p.7, 29, 32, 34</i>	Virginia: <i>p.32, 34, 41</i>
Massachusetts: <i>p.7, 24, 25, 32, 34, 39</i>	Washington: <i>p.3, 4, 12, 14, 16, 17, 18, 28, 32, 34, 41</i>
Michigan: <i>p.7, 32, 34, 39</i>	West Virginia: <i>p.32, 34</i>
Minnesota: <i>p.3, 7, 10, 21, 27, 29, 32, 34, 40, 42</i>	Wisconsin: <i>p.3, 8, 23, 32, 34, 41</i>
Mississippi: <i>p.7, 32, 34</i>	Wyoming: <i>p.7, 32, 34</i>
Missouri: <i>p.18, 22, 23, 26, 28, 32, 34, 40</i>	

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.

www.pewstates.org



THE
PEW
CENTER ON THE STATES

STAY CONNECTED ▶ pewstates.org

 twitter.com/pewstates

 youtube.com/pew

 facebook.com/pewtrusts

pewstates.org/newsletter