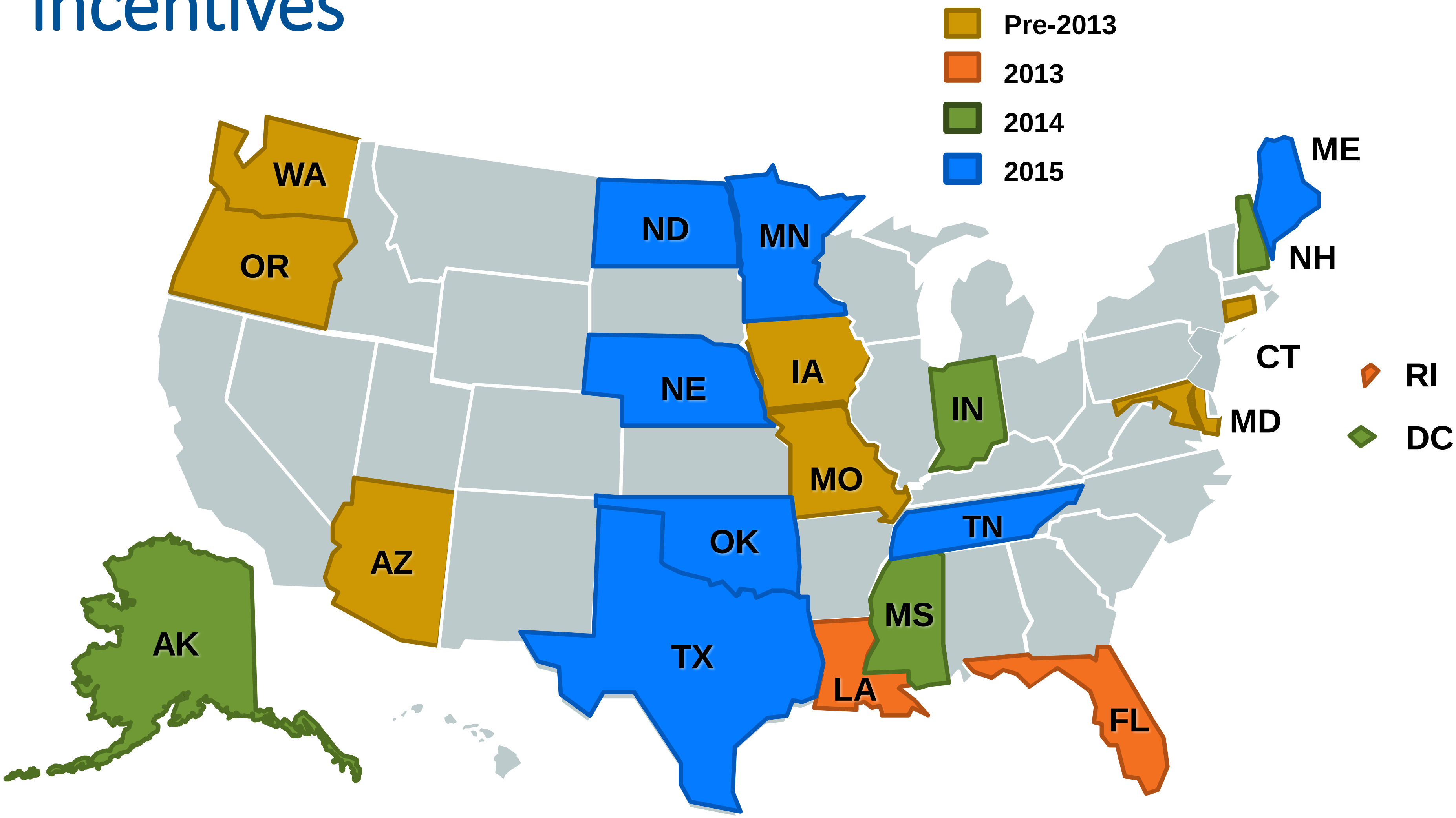
Evaluating economic development incentives: Key questions to answer

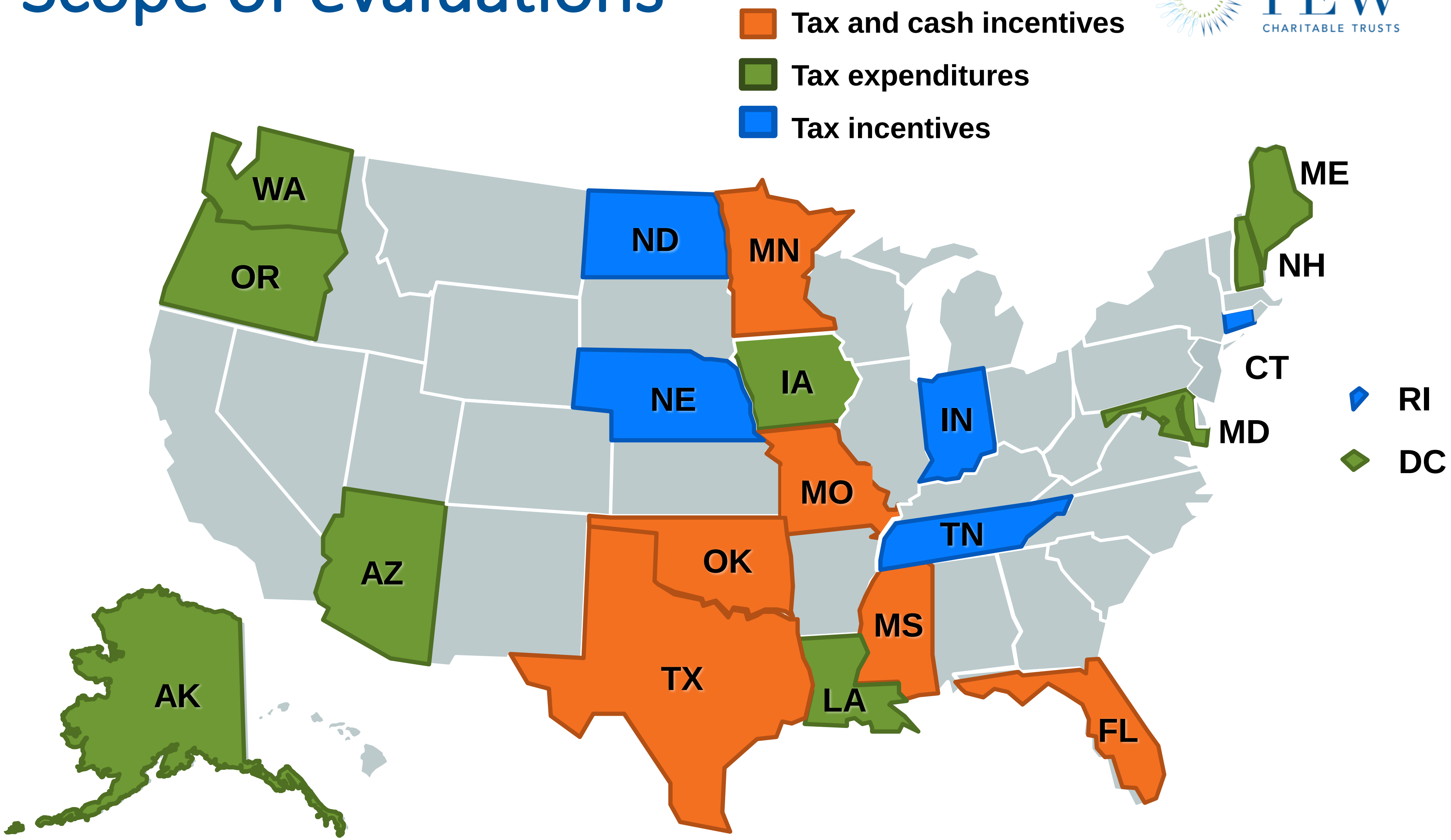
Julie Srey

January 8, 2016

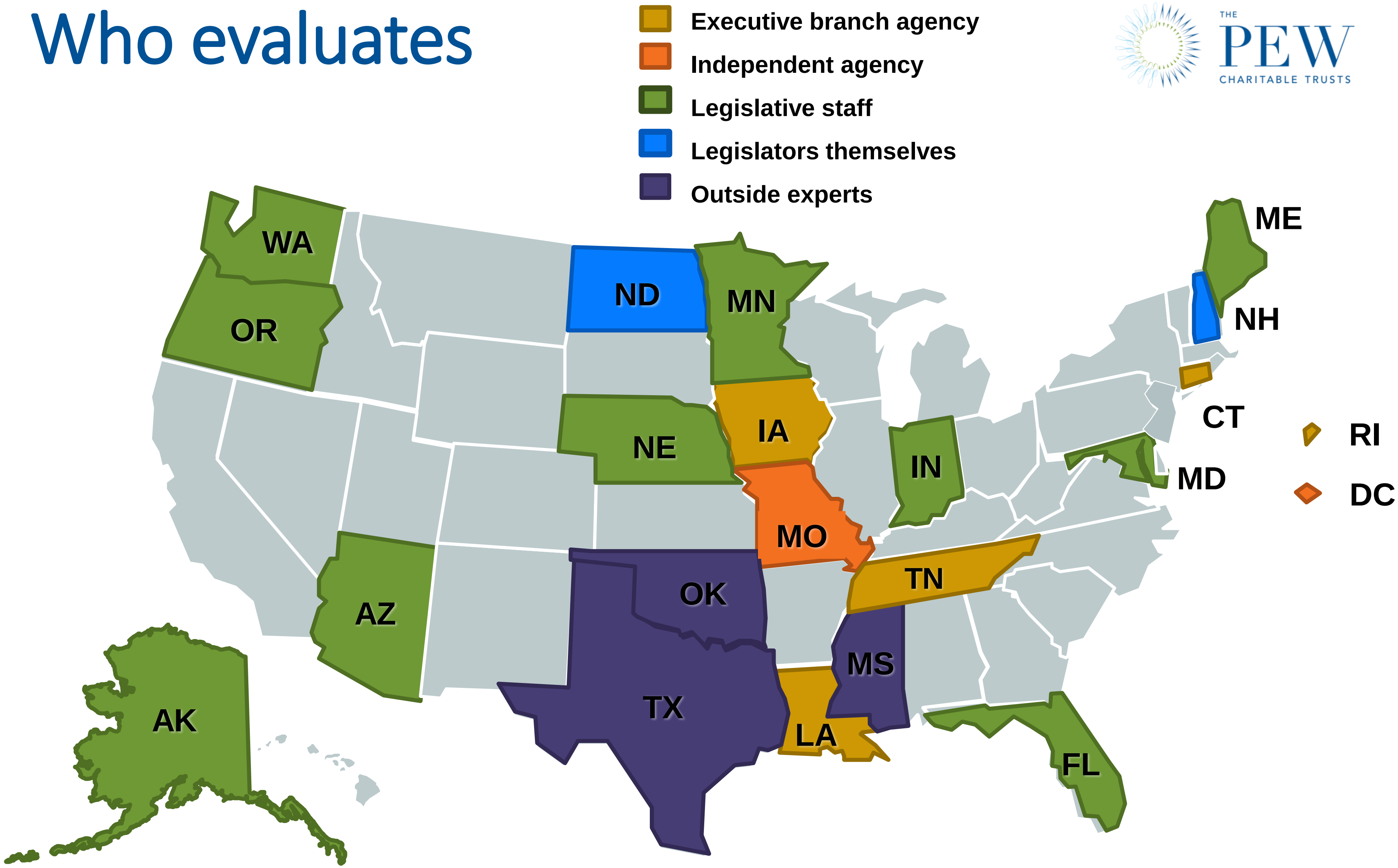
States regularly evaluate major incentives



Scope of evaluations



Who evaluates



Animation

Ideally, evaluations…

- Examine the design and administration of incentives.
- Measure economic and fiscal impact.
- Draw conclusions on how to improve policy.

Key incentive review questions

- Is the program effectively targeted to achieve its intended goal?
- Is the program being administered efficiently?
- To what extent did the incentive change business behavior?
- What are the net results for the state economy?
- How does the incentive compare to alternative policies for achieving the same goals?
- Is the incentive a source of fiscal risk?

Is the program effectively targeted to achieve its intended goal?

THE PEW CHARITABLE TRUSTS

Table 6.2: Brownfield Redevelopment Credits, Eligible Costs, and Projects, 2008 Through 2012, Millions of Dollars			
	Credit Eligible Costs	Credit Amount	Credit Component as % of Credit Total
Groundwater Remediation	$22	$4	0.4%
Site Preparation	350	49	5.9%
Tangible Property	5,472	786	93.7%
Total	**$5,844**	**$839**	**100.0%**

Source: Authors' analysis of Brownfield Credit Report, Department of Taxation and Finance, for credit years 2008 through 2012.

Source: Marilyn M. Rubin and Donald J. Boyd, "New York State Business Tax Credits: Analysis and Evaluation"

Is the program being administered efficiently?

NJ UEZ Program Administration Is Disproportionate to States with Similar Incentive Programs.

Over 135 state- and local-level professionals are required to administer the entire NJ UEZ Program, costing the State over $6.3 million annually (2002-2008):

- 99 full-time equivalent employees at the local zone level (including 1 UEZ coordinator for each zone)
- 19 staff at the State UEZ Program Office and
- 17 staff at the Department of Labor and Workforce Development and the Department of Treasury (Division of Taxation and Division of Revenue).

Source: Delta Development Group, Inc., and HR&A Advisors, Inc., “New Jersey Urban Enterprise Zone Program Assessment”

To what extent did the incentive change business behavior?

THE PEW CHARITABLE TRUSTS

Equity IRR vs. Target with BETC

$/kwh	million $ per MW									
	$ 3.50	$ 3.21	$ 2.91	$ 2.62	$ 2.32	$ 2.03	$ 1.73	$ 1.44	$ 1.14	$ 0.85
$ 0.070	No go	No go	Marginal	Marginal	Marginal	Marginal	Marginal	Go	Go	Go
$ 0.064	No go	No go	No go	Marginal	Marginal	Marginal	Marginal	Go	Go	Go
$ 0.057	No go	No go	No go	Marginal	Marginal	Marginal	Marginal	Marginal	Go	Go
$ 0.051	No go	No go	No go	No go	Marginal	Marginal	Marginal	Marginal	Go	Go
$ 0.044	No go	No go	No go	No go	No go	Marginal	Marginal	Marginal	Go	Go
$ 0.038	No go	No go	No go	No go	No go	No go	Marginal	Marginal	Marginal-Project	Go
$ 0.031	No go	No go	No go	No go	No go	No go	No go	Marginal	Marginal	Go
$ 0.025	No go	No go	No go	No go	No go	No go	No go	No go	Marginal	Marginal
$ 0.018	No go	No go	No go	No go	No go	No go	No go	No go	No go	Marginal
$ 0.012	No go	No go	No go	No go	No go	No go	No go	No go	No go	Marginal

Source: Industrial Economics, Incorporated, "Financial and Economic Impact of the Oregon Business Energy Tax Credit: An Analysis of Representative Projects Certified During the Period 2002 to 2009"

What are the net results for the state economy?

THE PEW CHARITABLE TRUSTS

	Number of projects (CY09)	**Value of incentives provided** (FY09)	**Total net new jobs (direct & indirect) created** (CY09)	**Estimated incentive per job (direct & indirect)**
Restaurants/hotels	32	$ 4 million	245	$ 16,313
Health Care	30	$ 4 million	146	$ 27,390
Retail trade	75	$ 7 million	350	$ 20,015
Manufacturing	53	$ 26 million	3,878	$ 6,705

NOTE: The above figures are estimations based on best current available data and assume projected direct jobs are actually created. Total net new jobs are estimated based on indirect job creation in accordance with RIMS II multipliers. Restaurant/hotels, health care and retail new direct jobs are adjusted with a 90 percent substitution effect.

Source: Louisiana Economic Development

How does the incentive compare to alternative policies for achieving the same goals?

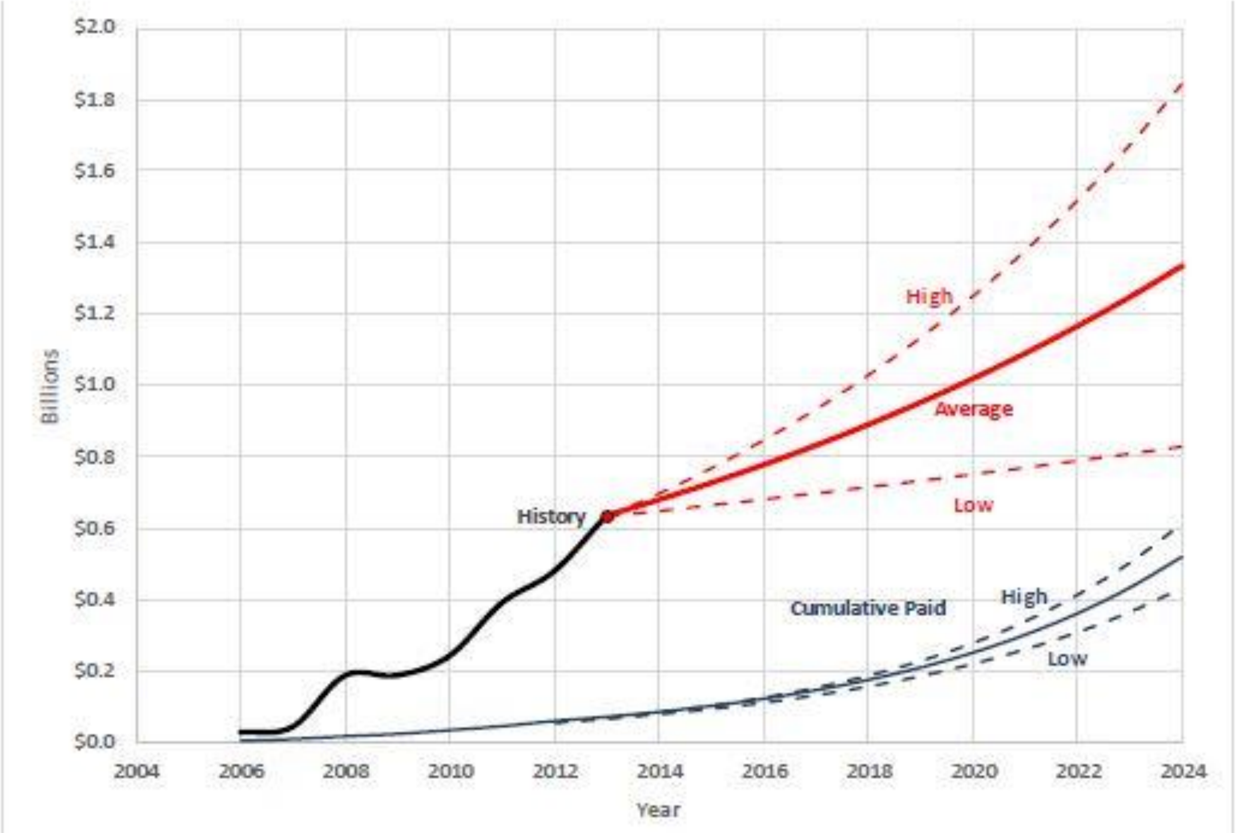
Table 3: Estimated 2011 Economic Impacts of Film Tax Credit and General Business Tax Reduction

Economic Indicator	Film Credit	General Business Tax Reduction
Jobs	55 - 70	370 - 450[2]
Personal Income	$2 million	$21 million
Output	$7 million	$54 million

Source: North Carolina Legislature's Fiscal Research Division

Is the incentive a source of fiscal risk?

Figure 9.1 Summary of 10-Year EDTIF Projection.



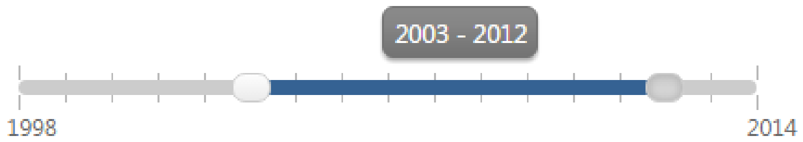
Source: Utah Office of the State Auditor

A new tool for evaluating incentives

Measure net impact

Start with your data:

Select the years you wish to analyze.



Enter your data in the chart below.

Year	Incentive Cost (in dollars)	Total Employment at Recipient Companies	Total Earnings of Recipient Companies (in millions)
2003	$75,000,000	54653	$8,500
2004	$75,000,000	55199	$8,500
2005	$75,000,000	55751	$8,500
2006	$75,000,000	56309	$8,500
2007	$75,000,000	56872	$8,500
2008	$75,000,000	57636	$8,500
2009	$75,000,000	58399	$8,500
2010	$75,000,000	59163	$8,500
2011	$75,000,000	59926	$8,500
2012	$75,000,000	60690	$8,500

Measure net impact

- Learn about key assumptions
- Consider alternative policies

Your Data | Industry | Elasticity | Rate of Adjustment | Displacement | Broader Impacts | Forgone Opportunities

Next Section >

Opportunity Costs of the Incentive

Part of understanding the impact of a tax incentive is considering whether it was more beneficial than alternative policy options. By subtracting the estimated impacts of these alternative policies from the estimated impacts of the incentive, states can see how many more or fewer jobs were created under the tax incentive than would have been created with another policy.

Because a tax incentive results in decreased revenue for the government, and states need to balance their budgets, these programs are often "paid for" with tax increases or spending cuts. Thus, commonly explored alternatives include maintaining or increase government spending on programs such as education, or maintaining or implementing a broad-based business tax cut.

Each of these options have different economic impacts. A tax increase for businesses will have a different impact than a tax increase on individuals. Cuts to education spending have more long-term impact on the supply of workers than other government spending cuts. The slider on the right address these potential differences.

More information: This tutorial focuses on fiscal revenue and expenditure options that could influence the supply or demand of labor. More details on estimating these supply- and demand-side factors can be found in the methodology section . Further, state size is estimated in this tutorial for convenience. Analysts should use state- or regionally-specific data when estimating the impact of programs in their region.

Relative to most other states, is your state economy about average, or is it smaller or larger than average?

- Smaller than average (e.g., GSP of $100 billion)
- Average (e.g., GSP of $300 billion)
- Larger than average (e.g., GSP of $1 trillion)

What portion of incentive costs will be offset by spending cuts versus tax increases?

75

Tax share:75% Spending share:25%

What share of any tax increases fell on businesses vs individual taxpayers?

Business share:90% Individual share:10%

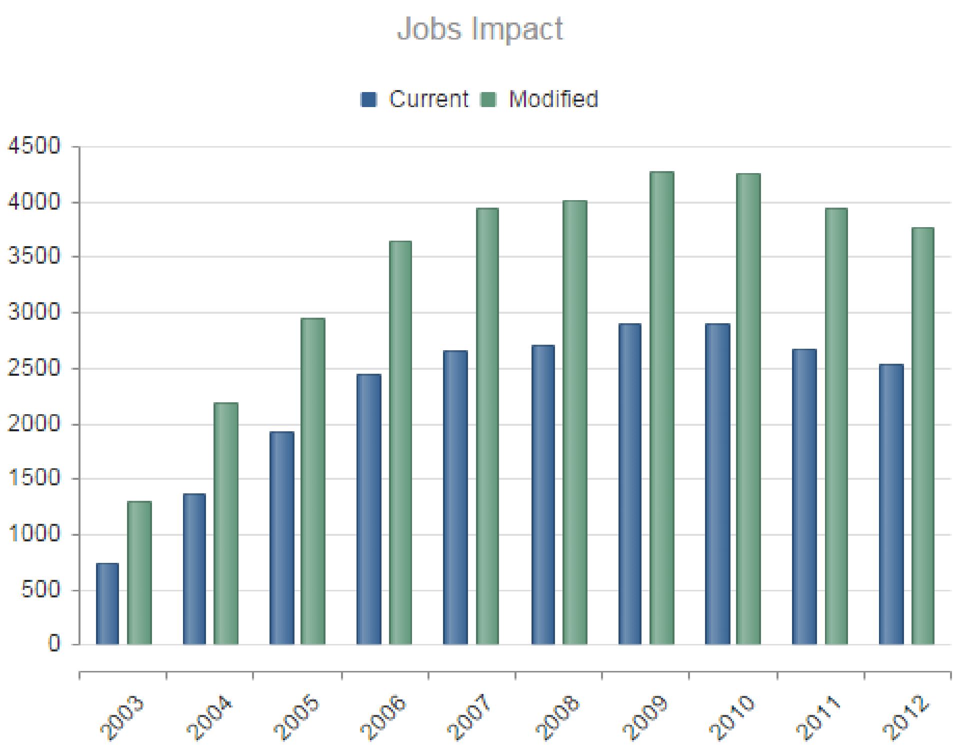
What share of the spending cuts came from K12 education spending?

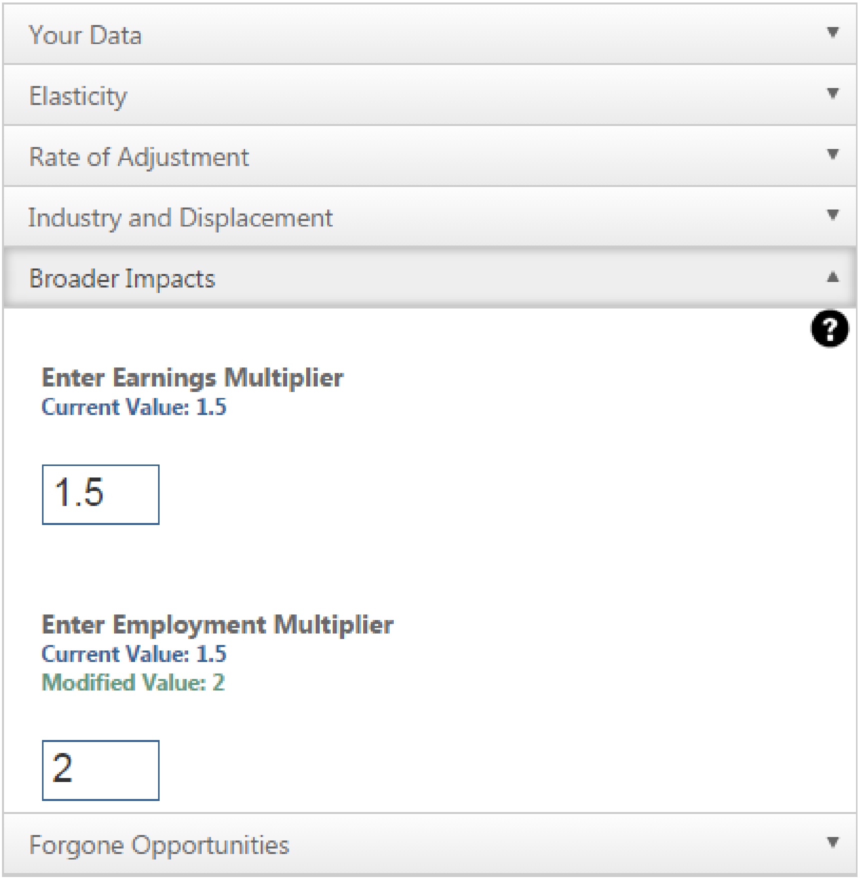
K12 share:25% Other spending share:75%

Year	Pre-opportunity Cost	Opportunity Cost	Net Jobs
2010	1161	-995	166
2011	1778	-1394	384
2012	2250	-1670	580

Measure net impact

- Estimate the effects attributable to the incentive
- Explore different incentive designs





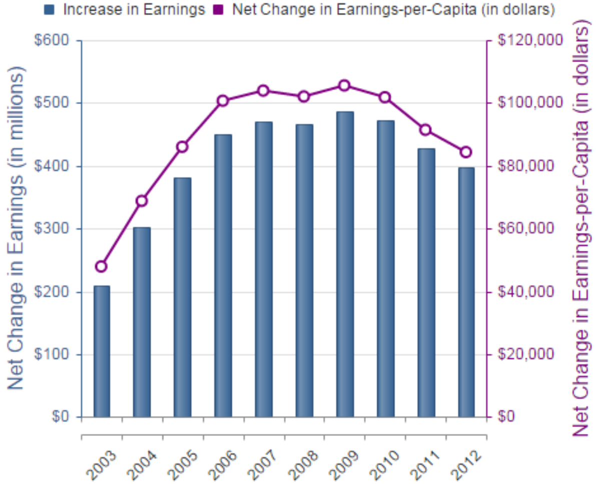
Measure net impact

- Compare net benefits to net costs

THE PEW CHARITABLE TRUSTS

Further explore the impacts by changing the population of interest:

- All residents: total impacts on original and new residents
- Baseline residents: impacts on original residents, those who would live in the area even without the incentive



Year	Net Change in Earnings (in millions)	Net Change in Earnings-per-Capita (in dollars)	Net Fiscal Cost	Cost-Benefit Ratio (cost per $1,000 in additional earnings)
2003	$208.61	$47,903	$74,905,175	0.359
2004	$302.35	$68,783	$74,855,721	0.248
2005	$381.58	$86,014	$74,807,081	0.196
2006	$451.01	$100,697	$74,733,388	0.166
2007	$470.12	$103,923	$74,694,625	0.159
2008	$465.91	$102,048	$74,659,716	0.160
2009	$486.17	$105,572	$74,614,709	0.153
2010	$471.57	$101,824	$74,586,420	0.158

A customizable spreadsheet

	A	B	C	D	I	M	S
1	Enter Years	Amount of incentive	Total Employment at Companies Receiving the Incentive(s)	Earnings at Incentive Recipient Companies (in millions)	Net new jobs	Jobs to baseline residents	Fiscal cost (or gain) per job for all residents
2	1998	$75,000,000	50000	$8,500	-293	-293	-$256,042
3	1999	$75,000,000	52500	$8,500	47	47	$1,600,398
4	2000	$75,000,000	53045	$8,500	325	230	$231,004
5	2001	$75,000,000	53576	$8,500	607	267	$123,435
6	2002	$75,000,000	54111	$8,500	850	333	$88,142
7	2003	$75,000,000	54653	$8,500	1,044	344	$71,779
8	2004	$75,000,000	55199	$8,500	1,202	346	$62,325
9	2005	$75,000,000	55751	$8,500	1,325	303	$56,520
10	2006	$75,000,000	56309	$8,500	1,423	238	$52,586
11	2007	$75,000,000	56872	$8,500	1,507	186	$49,655
12	2008	$75,000,000	57636	$8,500	1,602	161	$46,693
13	2009	$75,000,000	58399	$8,500	1,725	173	$43,334
14	2010	$75,000,000	59163	$8,500	1,780	159	$41,992
15	2011	$75,000,000	59926	$8,500	1,796	103	$41,597
16	2012	$75,000,000	60690	$8,500	1,802	71	$41,465
17	2013	$75,000,000	61453	$8,500	1,798	29	$41,543
18	2014	$75,000,000	61453	$8,500	1,752	-27	$42,618

Questions?

Julie Srey
jsrey@pewtrusts.org

pewstates.org/taxincentives