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Testimony of Thomas Cafcas
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Citizen's Commission for
Performance Measurement of Tax Preferences
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Thank you for the opportunity to testify before the Citizen's Commission.

My name is Thomas Cafcas, and I am a researcher with the Washington, D.C. based think tank called Good Jobs First.

Good Jobs First is a non-partisan, non-profit research center tracking best practices in economic development in all fifty states. I have authored over two dozen reports on economic development policies across the 50 states covered in national and state news outlets of record.

Good Jobs First maintains the most comprehensive national database tracking state and local subsidies awarded to companies in the name of job creation. Our organization regularly evaluates how every state informs its citizenry about subsidy packages, sets quality standards to ensure the maximum economic impact, and enforces subsidy contracts with recipients.

Over the years, we have noticed a disturbing trend of larger and larger subsidy packages summarized in our Megadeals report. But while the costs of these enormous and growing subsidy packages continue to whittle away at state revenues funding the critical investments needed for a resilient economy (workforce development, education, transportation, infrastructure, etc.), it isn't always the case that accountability standards and emergent best practices have followed lock step.

Boeing's $8.7 billion subsidy package is far and away the largest subsidy package ever awarded by a state government. With such high costs to state revenue, ordinary citizens might expect stringent standards to hold recipients of taxpayer bucks accountable. Unfortunately, in the heat of closing the package, best practices were overlooked: Washingtonians were left without money-back guarantees and strong standards.

We therefore strongly endorse the Legislative Auditor's recommendation to establish performance standards, especially job creation and job quality standards. Taxpayers also deserve money back guarantees if a subsidy recipient falls short on meeting performance goals. We further encourage amending Aerospace subsidies to require the growth of high-paying jobs here in Washington and not allow any company to receive subsidies while also laying off much of its workforce. The best way to do this is through specific job creation targets and greater transparency on recipient performance.

Unfortunately, it's not uncommon for a state to overspend on subsidies only to be left with underperformance later. In 2004, the North Carolina legislature approved a $242 million subsidy package without even knowing the recipient, later revealed as Dell. The plant was projected to create some 1,900 jobs, although then-Governor Easley claimed at the time that it would employ some 8,000 jobs. It opened in 2005 with 350 workers, grew to 1,100, and then declined to 900 workers. But no one was prepared for Dell's announcement in 2009 when the company announced plans to close the facility and outsource those jobs abroad.

Public officials & citizens were outraged. Sitting Governor Bev Purdue, a fierce proponent of incentives to attract jobs, stated "that every red cent of incentives money had to come back to the people of North Carolina." The company agreed to give back some $26 million in local subsidies, but refused to give back a large portion of the state subsidies it received. In fact, job shortfalls are emblematic in one of the largest North Carolina programs called the Jobs Development Investment Grant program where the Charlotte

News & Observer reported that over 30% of the state's grants within the program have been withdrawn or terminated for failure to perform. Fortunately, strong money back guarantees and lessons learned prevent companies from taking subsidies while underperforming.

Our recommendations to secure taxpayer bucks from getting misspent are not controversial in the economic development community. A recent survey of members of the International Economic Development Council (IEDC), a professional association of some 4,500 economic development practitioners, found the following:

- 98.6% said that "incentives should be structured in such a way that the community receives a tangible return on investment (e.g., employment, capital investment)."
- "96 percent believe that part or all of the granted incentives should be returned if a company does not meet agreed-upon projections [i.e., clawbacks or money-back guarantees]."
- "60.4% believe there should be more transparency in financial incentives negotiations."

Despite the near universal agreement on the need for more accountability and transparency, it seems like Boeing is already falling short. Despite the clear legislative intent to "maintain and grow jobs in the aerospace industry," the company has already announced layoffs that could affect up to 2,000 engineering and technical jobs at the company: the type of creative work that keeps a company committed to a region in the long run.

But I'm here today to reiterate one point: <u>*it's not too late*</u>. Many states are actively implementing and incorporating best practices that protect taxpayers. And many of these states are already applying best practices to Boeing!

- In Illinois, each subsidy recipient (including Boeing which is receiving subsidies there) is required to publicly report every year about their performance towards promised job creation. This report details not only jobs and wages overall, but specifically for each type of job created (like engineering, executive, or software engineering).

The state also requires the company to maintain employment levels, wages, and health benefits.
- In South Carolina, where Boeing has received two Megadeal subsidy packages totaling more than $1 billion, the company is required to pay back up-front subsidies if it falls short and only receives subsidies going forward if it meets certain performance criteria. The company is required to maintain and create new jobs as well as pay market based wages tied to the average county wage along with health insurance.
- In Alabama, where Boeing received $150 million in subsidies, the company is required to comply with performance verification from the state. In many states, verification is accomplished through audits of company records, cross-checking of employment figures with a separate reliable source like unemployment insurance records, or on-site inspections to ensure the accuracy of the data.

Thank you again for the opportunity to testify.

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