GOOD JOBS FIRST
1616 P Street, NW Suite 210
Washington, DC 20036
(202) 232-1616
www.goodjobsfirst.org

Additional Information as Requested during the Citizen's Commission for Performance Measurement of Tax Preferences October 3rd, 2014

Chairman Longbrake & Members of the Citizen's Commission:

Thank you again for the opportunity to testify before the Citizen's Commission on September 19th, 2014.

During the hearing, I mentioned a number of resources for the commission to consider and was approached after the hearing about presenting additional information. Please consider this information as you move forward in your evaluation of Aerospace preferences.

Best Regards,

Thomas Cafcas

Thomas Cafcas, Researcher with Good Jobs First
tommy@goodjobsfirst.org

For more information, see our websites at:
www.goodjobsfirst.org
www.clawback.org
www.subsidytracker.com

Hiring Targets and Other Forms or Performance Criteria

In the world of Economic Development, hiring targets are the norm, not the exception. In the appendix of Good Jobs First's *Money for Something* report from 2011, we summarize the various requirements state governments attach to their key economic development programs.

This report is available online at:
http://www.goodjobsfirst.org/moneyforsomething

Washington's scoring on setting performance criteria is available here:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneyforsomethingwa.pdf

As of December of 2011, nearly all state economic development programs (222 out of 238 analyzed) required some form of quantifiable performance requirement: 135 of those requirements related directly to job creation, job retention, or training a certain number of workers. The other 87 were tied to capital investment or qualified expenditures. 98 of those 135 programs with job-related requirements obligate recipients to maintain new jobs for a period of time and/or keep a facility open for a designated period.

Hiring targets aren't the extent of what states typically require either. Some 98 programs in 42 states we looked at impose a wage requirement on subsidy recipients. 53 of those wage standards are tied to labor market rates rather than a fixed amount that can stagnate over time like a multiple of the federal minimum wage. 11 mandate that wages exceed existing market averages for a specific geographic area or industry. 51 programs across 28 states require that the employer make health care benefits available to workers and 31 of them require the employer to contribute to health insurance premium costs.

Appendix 3 summarizes performance requirements:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneyforsomethingapp3.pdf

Appendix 4 summarizes wage and benefit requirements:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneyforsomethingapp4.pdf

In particular, I think it's relevant to draw attention to the following programs/issues:

- Many programs are what economic development professionals call "performance-based" meaning that in order to receive a tax break subsidy, a recipient must first meet a performance benchmark. Often these are tied to job creation, capital investment, or other criteria. Frequently, these requirements determine the size of the subsidy and in some cases there are minimum performance thresholds that a recipient must meet in order to qualify. For example, Connecticut's newly enacted Job Expansion Tax Credit requires a recipient to, at a minimum, create 10 jobs if the company has more than 100 employees, but the size of the subsidy is determined by the number of jobs created. For each *new* full-time (35 hours per week at a minimum) position created, a recipient is allowed a $500 per month ($6,000 year) per job tax credit applicable to one of four different kinds of taxes a business might owe in the state. The state also caps the revenue lost for all recipients of the program at $10 million per year. For more information: http://www.ct.gov/ecd/lib/ecd/jet_revised_slipsheet_12-8-11.pdf
- Georgia's Mega Project Tax Credit requires that a recipient, within 6 years of approval from the state, create and retain for 5 years at least 1,800 *new* full-time jobs and either invest $450 million in property or have $150 million in payroll. Companies are allowed a tax credit of up to $5,250 per job per tax year for up to 5 years. For more information: http://www.georgia.org/competitive-advantages/tax-credits/mega-project/

- Illinois's EDGE Tax Credit program requires that at a minimum a company with more than 100 employees create at least 25 jobs and invest $5 million. However, the state typically writes contract agreements with subsidy recipients tied to company-specific requirements set by the state's economic development agency. For example, Boeing's EDGE tax credit from this program required the company to create at least 70 new full-time jobs with an average pay of at least $70,000 per year. For more information: https://www.ilcorpacct.com/corpacct/output/2013/2013-The_Boeing-Mascoutah_4041.pdf
- Oklahoma's Quality Jobs Program requires subsidy recipients to meet a net *new* payroll threshold of at least $2.5 million with a minimum wage requirement tied to the average county wage as well as at least 50 percent of the health care premium costs for workers. The size of the subsidy is calculated as a percent of new taxable payroll. For more information: http://okcommerce.gov/new-and-existing-business/incentives/quality-jobs-program/
- Virginia's Major Eligible Employer Grant requires a recipient to create at least 400 *new* high-wage jobs or 1,000 *new* jobs and invest at least $100 million in capital. For more information: http://www.virginiaallies.org/assets/files/incentives/MEEGuidelines.pdf

Money-Back Guarantees

Good Jobs First's *Money-Back Guarantees for Taxpayers* report from January of 2012 looked at clawback requirements included in key economic development programs throughout the country.

This report is available online at:
http://www.goodjobsfirst.org/moneyback

Washington's scoring on setting money-back guarantees is available here:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneybackwa.pdf

As of December of 2012, 90 percent of the programs we examined (215 out of 238 programs analyzed) required subsidy recipients to report to state governments about job creation and other economic development outcomes. The vast majority of programs with reporting requirements also require independent verification that recipient reporting is complete and accurate (148 out of 215). Typically, this is completed through audits of company records, cross-checking against unemployment insurance records, and/or on-site inspections.

Three-quarters of the programs we examined (178) contained a penalty provision of some kind, often referred to as a clawback or money-back guarantee. These range from a recapture of a subsidy benefit already provided, a recalibration of future subsidies available, and/or a rescission or termination of future subsidies. 41 programs we looked at were "performance-based" meaning that a recipient does not receive benefits without first meeting various benchmarks often tied to jobs, wages, or investment.

Appendix 4 of the report summarizes the various approaches that states take to ensuring recipients of subsidies live up to their end of the bargain:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneybackapp4.pdf

Appendix 5 of the report contains a list of state run websites disclosing how well companies are doing in meeting their performance benchmarks and whether a clawback in the form of rescission, recalibration, or recapture has been utilized:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/moneybackapp5.pdf

Our more recent *Show Us the Subsidized Jobs* updated links to many of these websites:
http://www.goodjobsfirst.org/SUTSJ_links

Transparency on Economic Development Subsidies

In January of this year, Good Jobs First released *Show Us the Subsidized Jobs* our evaluation of state transparency websites and databases which help inform the public about the awarding of subsidy packages.

The report is available online at:
http://www.goodjobsfirst.org/showusthesubsidizedjobs

Washington's scoring on transparnecy is available here:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/showusthesubsidizedjobswa.pdf

Washington's transparency score and ranking (tied for 10^{th} nationally) was significantly boosted by the enactment of SB 5882 (2013) requiring disclosure on B & O tax preferences.

How Much Do Taxes Matter in Site Location Decisions and How Do Tax Breaks Impact on Job Growth?

Good Jobs First in conjunction with Dr. Peter Fisher looked specifically at this question in our May 2013 report entitled *Grading Places: What Do the Business Climate Rankings Really Tell Us?*:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/gradingplaces_0.pdf

As we wrote starting on page 11 of that report:
"Any cost-reduction strategy limited to state and local taxes is focusing on a very small component of business costs. Businesses take many factors into account when making an investment location decision; they weigh most heavily the *business basics that comprise more than 98 percent of their cost structure*. Those factors vary greatly depending upon what the company makes or does; which part of the company is being sited; where the company and industry are in their life cycle; where the company and its

competitors already have facilities, and other factors. Common key variables include:

- proximity to markets and to suppliers;
- transportation infrastructure;
- supply of labor with appropriate education and skills;
- wage and salary rates;
- energy costs;
- occupancy costs (to buy or lease space);
- access to supporting business services;
- the quality of local schools, recreation amenities, climate and other amenities important in attracting and retaining skilled labor;
- proximity to university research facilities.
- for service sector companies, labor is the biggest cost;
- for manufacturing or warehousing, physical plant space is also a major expense.

By comparison, *all state and local taxes on businesses combined* (including corporate and individual income taxes, sales taxes, plus local property taxes) *represent only about 1.8 percent of total business costs on average for all states*.

Corporate income taxes, in turn, are only about 9.5 percent of that 1.8 percent, or 0.17 percent, according to one estimate. Put another way, a large corporate tax break that reduces a company's corporate income tax bill by half represents a cost savings to the average firm of just 0.09 percent. By contrast, tiny differences in big-ticket cost items such labor, occupancy, energy, or raw materials, would dwarf anything a company could gain via tax breaks…

…The preponderance of the evidence, then, from many dozens of peer-reviewed studies over several decades is that business tax cuts, if they could be enacted without cutting public spending, have some positive effect on state economic growth, but that this effect is quite small. These statistically controlled policy experiments are in effect holding all else equal. It is important to understand what this means. The research does not imply that a 10 percent cut in taxes on business that is paid for by cutting the state budget would produce 3 percent growth. Such a pair of actions (states of course must balance their budgets) might well produce no growth at all, especially in the long run, because budget cuts necessarily mean cuts in state and local services essential to the functioning of the economy. As [Professor Tim] Bartik himself has said: "[A]n economic development policy of business tax cuts may fail to increase jobs in a state or metropolitan area if it leads to a deterioration of public services to business. An economic development policy of tax increases may succeed in increasing jobs if it significantly improves public services to business.""

Michael Mazerov, Senior Fellow at the Center on Budget and Policy Priorities, has also summarized the academic research on the impact state tax cuts on economic growth in a June of 2013 report:
http://www.cbpp.org/cms/index.cfm?fa=view&id=3975

How can Economic Development Subsidies be Better Calibrated?

Good Jobs First's 2007 report, *The Ideal Deal*, looked at ensuring the best performance from recipients of economic development subsidies:
http://www.goodjobsfirst.org/sites/default/files/docs/pdf/idealdeal.pdf

As the Pew Center for the States has discovered, few states do a good job of calibrating economic development subsidies to prevent overspending. Although Washington is leading the way, there is still much to learn. Two reports seem relevant to point out:

Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth:
http://www.pewtrusts.org/~/media/legacy/uploadedfiles/wwwpewtrustsorg/reports/economic_mobility/PewEvaluatingStateTaxIncentivesReportpdf.pdf

Avoiding Blank Checks: Creating Fiscally Sound State Tax Incentives: http://www.pewtrusts.org/~/media/legacy/uploadedfiles/pcs_assets/2012/Pewtaxincentivesreportpdf.pdf

Is a Federal Solution Possible?

At one point during the hearing, it was asked whether the interstate war for jobs was the optimal approach to economic development. Three economic experts have studied the problem at length.

William Schweke, *Curbing Business Subsidy Competition: Does the European Union have an Answer?* September 2000, Corporation for Enterprise Development. Online at: http://cfed.org/assets/pdfs/EU_paper_PDF.pdf

Professor Kenneth Thomas's blog summarizing the findings of his book on the topic. *State and Local Subsidies to Business More Out of Control than Ever*. Online at: http://www.middleclasspoliticaleconomist.com/2011/11/state-and-local-subsidies-to-business.html
Professors Kenneth Thomas, *Investment Incentives and the Global Competition for Capital*, November 2010, Palgrave Macmillan: http://www.palgrave.com/page/detail/investment-incentives-and-the-global-competition-for-capital-kenneth-p-thomas/?k=9780230229051&loc=uk

Dr. Timothy Bartik's blog entitled *Federal policy towards business incentives*. Online at: http://investinginkids.net/2011/02/28/federal-policy-towards-business-incentives/