Strategies to More Effectively Evaluate Economic Development Incentives

Mark Robyn
July 18, 2019
CSG West Annual Meeting
Incentive Evaluation Processes

• Evaluations of existing incentive programs
Evaluation Processes – Pre-2013

WA
OR
IA
MO
CT
MD
Incentive Evaluation Processes

• Evaluations of existing incentive programs

• “Sunrise” evaluations for new proposals
Summary

• Is there a clear and measurable goal?
• How effective is it?
• Are there unintended consequences?
• Are the full budget costs and economic effects accounted for?
• Are there fiscal protections?
Is there a clear and measurable goal?

This helps with:

• Knowing what outcomes to look for

• Identifying specific metrics

• Evaluation
Is there a clear and measurable goal?

This helps with:

• Identify the best solutions

• Avoiding unintended consequences

• Ensuring alignment with state’s economic development objectives
Tool

**Objective**

Allow a tax credit for qualified research expenses

...to...

**Target Outcomes**

Reduce business costs

...thereby...

Inducing some businesses to conduct research activities they otherwise would not have conducted

...thereby...

Necessitating the hire of additional employees to conduct research

...thereby...

**Logic Model**

Increasing Minnesota’s employment-to-population ratio

By an average of X percent

Data Needed

Wages may be used as an imperfect proxy

Data Availability

Available from the unemployment insurance filings with DEED

Available from DEED and the Minnesota State Demographic Center

FTE counts at incentivized companies by employee classification

Not currently available; require incentivized companies to report annually to Department of Revenue

Number of Minnesotans currently employed and the current state population
How effective is it?

• Are indirect economic impacts significant?

• How do local economic conditions affect the results?
  – e.g. is unemployment high or low?

• Include context and comparisons from other incentives, programs, or states
### Comparing alternatives: Wisconsin Film Tax Credit

<table>
<thead>
<tr>
<th>Category</th>
<th>Incentive Per Hour of Employment Created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology Dev. Zones</td>
<td>$3.13</td>
</tr>
<tr>
<td>Agricultural Dev. Zones</td>
<td>$3.05</td>
</tr>
<tr>
<td>Community Dev. Zones</td>
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<tr>
<td>Dev. Opportunity Zones</td>
<td>$5.96</td>
</tr>
<tr>
<td>CDBG – Economic Dev.</td>
<td>$3.17</td>
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<tr>
<td>Public Facilities - ED</td>
<td>$2.65</td>
</tr>
<tr>
<td>Customized Training</td>
<td>$2.22</td>
</tr>
<tr>
<td>Major Economic Dev.</td>
<td>$3.33</td>
</tr>
<tr>
<td>Minority Development</td>
<td>$1.91</td>
</tr>
<tr>
<td>Rural Development</td>
<td>$3.29</td>
</tr>
<tr>
<td>Film Tax Credits</td>
<td>$61.33</td>
</tr>
</tbody>
</table>
How effective is it?

• Is it likely to affect business behavior as intended?
  – Does it provide a substantive reduction in costs?
  – Does it avoid rewarding businesses for things they did in the past?
  – Is there certainty for businesses?
  – Are incentives payments front-loaded or far in the future?
Are there unintended consequences?

- Displacement of other local businesses
- Is it successfully targeted at the intended businesses or regions?
Are there unintended consequences?

- Does a significant portion of the economic impact occur outside the state?

- Does it reward businesses simply for restructuring?
Are the full budget costs and economic effects accounted for?

- Economic growth can increase both revenue and spending

- Some companies receive incentives for things they would have done anyway

- Budget tradeoffs
Are the full budget costs and economic effects accounted for?

A good evaluation can address…

• Budget and policy tradeoffs
  – “Balanced budget” approach: how is the incentive paid for?
  – Compare it to alternative policies that achieve the same goal
Are the full budget costs and economic effects accounted for?

A good evaluation can address…

• Indirect economic effects
  – Displacement
  – Population growth
  – Housing prices
  – Business costs
Are there fiscal protections?

- Cap on total incentive amounts
- Budget for incentives through appropriations
- Sunsets
Are there fiscal protections?

- Performance agreements
- Monitor costs on an ongoing basis
Summary

- Is there a clear and measurable goal?
- How effective is it?
- What are the unintended consequences?
- Are the full budget costs and economic tradeoffs account for?
- Are there fiscal protections?