NEW MEXICO ECONOMIC DEVELOPMENT TAX INCENTIVE AND ACCOUNTABILITY TASK FORCE REPORT

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TAX INCENTIVES ACCOUNTABILITY TASK FORCE

INTRODUCTION

Both Governor Richardson and members of the State Legislature have an interest in determining the effectiveness of the Economic Development Incentives in New Mexico. In the 2005 legislative session, a House Joint Memorial (HJM 11), introduced by Representative Mimi Stewart, directed the Economic Development Department to convene a Task Force to review and make recommendations about how to develop a system for evaluating economic development incentives. Although the legislation did not pass during the session, the measure clearly had the strong support of both houses of the legislature and the Governor.

The Economic Development Secretary endorsed the spirit of HJM 11 and committed to convening a Task Force charged with recommending how the State could assess the efficacy of its economic development incentives. The Economic Development Incentive Task Force was formed in June 2005 and included representatives from state agencies, legislative staff, and private sector. Members of the Task Force are:

- Rick Homans, New Mexico Economic Development Department
- Elizabeth Davis, New Mexico Economic Development Department
- Kelly O'Donnell, New Mexico Department of Taxation and Revenue
- Art Martinez, New Mexico Department of Labor
- Stuart Hamilton, New Mexico Department of Finance and Administration
- Norton Francis, Legislative Finance Committee
- Carol Radosevich, Public Service Company of New Mexico
- Helen Hecht, Sutin, Thayer and Brown Law Firm
- Steven Keene, Neff and Ricci, CPA
- Brent Earnest, Legislative Finance Committee

Following the spirit of the House Joint Memorial, the Task Force agreed to investigate policy, program design and implementation issues by reviewing current New Mexico requirements, best practices nationally, research available in the field, and policies and programs of other states. Particular attention is devoted to North Carolina, a model program that encompasses many of the aspects desired in New Mexico. An example of a comprehensive report from North Carolina is the William S. Lee Act 2005 Assessment of Results which is found in Attachment 1.

This report is organized to address the following topics with more extensive background materials provided in appendices.

1. How are tax incentives defined and which incentives should be measured?
2. What is the most effective mechanism to collect data about the businesses which take advantage of these incentives?
3. What type of information should be collected from these businesses?
4. What needs to be done to protect the confidentiality and proprietary nature of data and information collected?
5. What methods should be implemented to validate data and what penalties established for misreporting or failing to report?
6. How should data be analyzed to estimate economic impacts of the incentives?
7. What reporting mechanism should the state implement to disseminate the information collected?
8. What are the responsibilities of agencies and how can their work be best coordinated?
9. What other legislative issues need to be addressed, including the estimated costs to implement such a system?

On December 21, 2005 the Task Force came to consensus on recommendations for this report. Because Task Force members felt strongly that public input was an important part of any report, comments were solicited from business groups, tax professionals and economic developers throughout the state. A summary of those comments can be found at the end of this report.

The Task Force believes the following recommendations serve as an appropriate first step to assessing the State's economic development incentives. Collecting and evaluating incentive data necessarily will require additional resources, but it is an investment worth making. The evaluation process has the potential to provide policy makers, state agencies and the business community with a clearer picture of how the State's dollars are being spent and the returns on those investments in terms of job creation and economic growth.

1. INCENTIVES TO BE MEASURED

The first issue faced by the Task Force was to determine which tax incentive programs to target for increased reporting and analysis. Given limited resources, and the fact that New Mexico has enacted 27 state business development incentives (see appendix A for listing of incentives), it quickly became clear that priorities had to be established. Accordingly, the Task Force decided on the incentive programs for initial inclusion in the reporting program, based on the following criteria:

- Most frequently used incentive programs;
- Programs with the potential for the highest impact on tax revenues;

- More recently enacted programs with potential for heavy use; and
- Programs of legislative interest based on use and uncertainty of impact.[1]

As a result of these considerations, the Task Force recommends that the following incentive programs be included in the initial establishment of the reporting and analysis process:

Incentive	Description
Job Training Incentive Program	Direct grant program which funds classroom and on-the-job training for newly created jobs in expanding or relocating businesses for up to six months.
Industrial Revenue Bonds	Municipalities can acquire, own, lease or sell projects for the purpose of promoting economic growth. Property covered under an Industrial Revenue Bond can be exempt from all taxation by the state of New Mexico, as well as counties and cities.
Manufacturing Investment Tax Credit	Qualified manufacturing operations in New Mexico may claim an investment credit equal to 5% of the purchase value of new qualified equipment and other property used directly and exclusively in the manufacturing operation. This credit is used to off-set gross receipt or compensating taxes for manufacturers purchasing equipment.
High Wage Jobs Tax Credit	For any newly created job which pays over $40,000 in an urban area or $28,000 in a rural area, a qualified employer may claim a tax credit in the amount of ten (10) percent of the wages and benefits, not to exceed $12,000. This credit is available for the year in which the job is created and for three 3 years following.
Rural Job Tax Credit	A company may receive a credit for creating new jobs in rural areas. A 25 percent credit is earned for the first $16,000 in wages paid for a job performed in a rural area with a population of less than 15,000. Maximum annual credit is $1,000 per job and can be taken for up to 4 years. A credit of 12.5 percent of the first $16,000 in wages paid for a job created in a rural area with a population of over 15,000. Maximum annual credit of $1,000 per job and can be taken for 2 years.

[1] The Task Force reviewed information from six (6) states that conduct in-depth studies of business incentive programs: California, Louisiana, New Jersey, North Carolina, Vermont and Virginia. The criteria used by the Task Force are similar to the criteria used in these other states with rigorous, on-going, tax incentive evaluation programs. Details on these states are found in Appendix E.

Incentive	Description
Technology Jobs Tax Credit	A company may qualify for a 4 percent tax credit on research activities and facilities. If the company is in a rural area, the credit doubles. A company that increases annual payroll expenses at its research facilities by at least $75,000 for every $1 million in expenditures may be able to claim the additional tax credit of 4 percent.
Research and Development Small Business Tax Credit	Qualifying companies pay no state gross receipts taxes, compensating taxes or withholding taxes. Qualifying companies must: Employ no more than twenty-five employees; have revenues of no more than $5 million; Have not more than fifty percent of its voting securities owned directly of indirectly by another business; and make qualified research expenditures for twelve calendar months of at least twenty percent of its total expenditures.

It is also recommended that the Legislature mandate participation in and compliance with the evaluation program as a component of any future economic development incentive program it chooses to enact.

2. DESIGN OF A REPORTING MECHANISM TO COLLECT DATA

The Task Force recommends the implementation of an on-going, sustainable process that allows for the annual collection and reporting of information on the economic development incentives outlined above.

The Task Force's review of practices from other states revealed that with recent increased calls for corporate and public transparency and accountability, most states have evaluated some or all of their business incentives programs in one form or another. Some state agencies administering incentive programs have undertaken evaluation efforts on their own; others have had evaluations of their incentive programs undertaken by legislative committees, auditors, independent organizations, academic researchers, and even journalists.

The majority of states have established rudimentary reporting requirements based primarily on businesses reporting data that was contractually established at the time of the incentive's award. These typically include reporting of jobs created or retained, and the wages and benefits paid over years prior to the incentive and afterwards. Minimal analysis is conducted on the data submitted by businesses; data generally are compiled for purposes of producing an annual report, usually for the legislature. Appendix B includes examples from eight states that have developed economic development subsidy disclosure reporting requirements.

The Task Force found the annual report produced by North Carolina to most closely replicate the information and reporting style they preferred. The report presents actual numbers and uses no multipliers to predict economic impact and details incentives used by industry and location. Because North Carolina's incentive structure differs from New Mexico's, the task force made individual decisions about which incentives would be assessed and reported, but followed closely the North Carolina structure about what information to collect and report. A copy of the North Carolina annual report can be found as Attachment 1 of this report.

DATA COLLECTION STRATEGIES

Data collection strategies of job creation incentives essentially follow two basic paths: direct and indirect.

- **Direct data collection** can be self-reported by the beneficiary corporation or accumulated by third party observation and measurement, such as through an audit.

- **Indirect data collection** is the result of extrapolation or interpolation from primary data sources or the use of secondary sources.

In making their decision regarding the methodology for collecting data, the Task Force looked at experiences in other states and carefully evaluated the following factors:

- Cost of data collection
- Impartiality of data collection and, therefore, its "reliability"
- Ease of data sharing and analysis

Based on this research, the Task Force recommends that the State use the direct data collection method similar to that in North Carolina.

3. RECOMMENDED DATA TO BE COLLECTED

The Task Force believes the following data are the most important in evaluating results of economic development incentives and recommends that this information be collected from any companies using the programs or incentives. The task force recommends that this data be collected going forward in order that a report can be produced for the legislature that provides a complete snapshot of what jobs were created and where in conjunction with the incentives. Not only will this information be valuable to the state Economic Development Department, the legislature and the public in understanding the results of state incentive programs, but also it will be essential to provide a longer-term, comprehensive evaluation of the incentives' overall impact on the New Mexico economy.

- **Job Creation.** Companies would report the number of net new jobs created by the company as of the date of their application. New jobs are defined as the number of jobs that exceeded a company's previous three year average employment as reported to the Department of Labor in quarterly unemployment insurance reports. This definition allows for an annual report that indicates the total number of net new jobs created by the state's incentives.

- **Wages.** Companies would report annual wages paid to employees as well as wages paid in jobs created as a result of the incentive. An annual report would contain the total wages paid to New Mexicans in conjunction with the incentives, and the average wage paid in the newly created jobs. The report could also aggregate data to convey how many jobs were created in specified categories: for example, the number of jobs created paying over $28,000 a year – the threshold for the High Wage Jobs Tax Credit.

- **Benefits.** Companies would report the kinds of benefits offered to employees and the percentage contributed by the company for those benefits. A standard federal definition of what is considered a benefit could be used to create a simple check list on which businesses would answer which benefits were offered to the employees in newly created jobs. Examples of benefits would include healthcare, retirement, paid leave, flex time. In addition, employers would be required to report employee cost sharing on health insurance.

- **Investment.** Companies would report total dollars spent in the year which the incentive was received for new construction, machinery, and equipment. An annual report would indicate the total dollars being invested by the company in addition to the jobs being created. This information will be critical to determining the total economic impact incentives are producing in the State.

- **Dollars Invested in Research and Development.** Companies taking advantage of the Technology Jobs Tax Credit and Research and Development Small Business Tax Credit would report how much they invested in New Mexico operations in that year in research and development for innovating their product or service. An annual report would contain the total dollars invested by companies in research and development. The data will be important to assessing the impacts the incentives have on the State's economy as a whole.

- **New versus expanding business.** The company would be required to report the number of years they have been in business in New Mexico. This information would help the state to assess the percentage of companies utilizing the incentives who are new to the State as opposed to existing businesses.

- **Type of business**. A business would be required to report its NAICS (North American Industry Classification System) code. In addition, the company would be required to provide a brief description of what it produces or what services it provides. These descriptions will assist in validating the NAICS code. This information would allow the annual report to reflect the types of industries using the incentives.

- **Incentives applied for versus claimed.** The annual report would include information on any tax credits in excess of a company's liabilities which are being carried forward to another tax year. The Manufacturing Investment Tax Credit, Rural Jobs Tax Credit, and Technology Jobs Tax credit all contain provisions which allow a tax payer to roll any unused credit over to another year. In the case of the Rural Jobs Tax Credit, the credit may be transferred to another company; however, the state would still be foregoing a defined amount of tax revenue. This information will assist the state in determining how much the outstanding liabilities for these credits are for future years.

- **Rural vs. urban businesses.** Companies would be required to report the physical location of employees' workplaces. This would allow reporting of the percentage of incentives used by rural and urban based businesses. The data could further be refined to show the numbers of businesses receiving incentives by region, if individual taxpayer confidentiality could be protected.

- **State Residency.** Companies would be required to report the state in which employees hired had resided in the last year. An annual report could compare how many New Mexicans are hired into newly created jobs as opposed to residents of other states who migrate to New Mexico to take these jobs.

- **Historical data to show trends.** The Task Force recommends that the same information be supplied on an annual basis. After Year 2, the report will present any changes in these key indicators and, as the program continues, reflect short and long-term trends.

In addition to collecting data on these elements, the Task Force recommends that more extensive data be collected on Industrial Revenue Bonds.

- Provisions of the bonds including amount of the bond issue(s), term of the bond(s), percentage of property taxes abated, amount of compensating and gross receipts taxes exempted and any payments made in lieu of taxes by the firm. Combined with other basic company data provided to the State, an annual report can project forgone State revenues.

- Initial projections of jobs created, wages paid, benefits, investments, and research and development, type of business, and location of business. Because companies apply for IRB's before they begin construction and development of a facility, a gap will exist between the time the company applies and is approved for a bond and when it hires full-time permanent employees to staff the facility.

- The Tax and Revenue Department should be given broad authority to collect any additional necessary data from these companies to determine foregone revenues for property, compensating, and gross receipts taxes.

Comparison of Other States Collection and Reporting Methods

State	Reporting Requirements of Companies Receiving Incentives	Reporting Mechanism
Connecticut	Companies receiving more than $250,000 must report jobs created, projected jobs created, number of jobs estimated in initial application and amount of assistance received.	Reports are available to the public and also provided to the municipal authority in which the project is located.
Illinois	Companies receiving incentives are required to report annually on the type and amount of development assistance received, the projected and actual number of jobs created or retained, and the average wages paid by job classification.	No requirements.
Maine	A company receiving over $10,000 in one year must submit an annual report detailing: -Amount of assistance received by the business in the preceding year from each economic development incentive and the uses to which that assistance has been put. -Total amount of assistance received from all economic assistance programs. -Number, type and wage level of jobs created or retained. -Current employment levels for the business for all operations within the state, the number of employees in each job classification and the average wages and benefits for each classification. -Any changes in employment levels that have occurred over the preceding year.	An Economic Development Incentive Commission is charged with gathering and examining information and reporting to the Legislature. The Commission reports every two years on economic development incentives and the effect of all business-related grants, subsidies, tax exemptions and tax credits. Information is provided on the aggregate number of jobs created, wages, and the cost to taxpayers per job created.
Minnesota	Companies receiving incentives are required to report: the stated public purpose of the subsidy, comparisons across time periods and across grantors, the amount of subsidy, the number of part-time and full-time jobs created within bands of wages, and benefits paid within the bands of wages.	The Minnesota Department of Employment and Economic Development (DEED) produces the Business Assistance Report annually. The DEED must also report any companies that failed to meet the requirements of their agreement.
Nebraska	Companies are required to report detailed information to the Department of Revenue yearly. Information required includes: -Business identity; -Business location; -Industry group; -Specific incentive provided; -Credits earned; -Credits used: corporate tax, individual income tax, sales and use; -Jobs created; -Total employed by the company in the state for current year; -Total employed by the company in state for previous years; -Expansion of capital investments; Wage levels; -Total number of qualified applicants; and	The Tax Commissioner must report to the Legislature by March 15th each year. The Department of Revenue analysis, based on Legislative Fiscal Office research, projects gains or losses to the program by assuming that 30 percent of the jobs would not have been created absent the incentive. This assumption is based on use of an input-output model that assumes jobs and investments created are cycled through the economy and generate additional jobs and consumption using generally recognized multipliers.

State	Reporting Requirements of Companies Receiving Incentives	Reporting Mechanism
	-Projected future state revenue, gains and losses.	
North Carolina	Businesses applying for state tax credits are required to supply the following data along with their tax return: -Summary of credits generated -Summary of credits taken -Job creation -Machinery and equipment investment -Job creation in development zones -Worker training -Research and development -Investment in central offices or aircraft facilities	The Department of Revenue is required to publish an annual report detailing data.
Ohio	Businesses in enterprise zones are required to report: -Number of employees on site before the agreement -Number of employees at end of reporting year -Property value -Relocation information -New payroll -Property taxes paid -Property taxes exempted -Total employment	The State Tax Commissioner must submit an annual enterprise zone report to the governor and legislature.
West Virginia	Companies are required to report tax credits to the State Register. Reports include: type of credit, and dollar value of credit in quarter-million and half-million dollar ranges.	The Tax Commissioner reports to the Legislature on a biennial basis on the 21 tax credit programs available to businesses in the state.

4. METHODS TO COLLECT DATA

As noted above, the Task Force recommended a direct collection of data. In all cases, the information will be supplied directly by the company to the State.

- **Industrial Revenue Bonds**

Because companies apply for bonds well before any development and hiring have actually occurred, companies will only be able to report projections of the required data. The Task Force recommends that within 60 days of closing an IRB issued by either the State or local government, companies be required to report to the State the terms of the bonds and these projections.

To track performance and verify data, companies receiving IRBs also would be required to report on an annual basis their actual job creation, wages, benefits, investment research and development. The Task Force recommends this reporting requirement continue over the life of the bond.

State law should be amended to require the initial and annual reporting as a condition of the bond closing, and the requirement also should be contained in the closing documents.

- **Tax Credits and Job Training Incentive Program**

Because the law requires application for the Job Training Incentive Program and the other tax credits to be made on an annual basis, companies applying for these incentives would be required to provide data as part of the application process. Again, State statutes would need to be amended to reflect the State's authority to require this reporting.

The NMEDD shall allow for public comment on any proposed changes in application for the Job Training Incentive Program. The Taxation and Revenue Department shall allow for public comment on the process to collect data for tax incentives. The Task Force recommends that the Departments be given broad rulemaking authority to address concerns aired during the public comment process.

All reporting forms and applications for **all** incentive programs must be kept as user-friendly and streamlined as possible. Questions should be straightforward and easily answered. The Task Force recognizes that businesses will not use the incentive programs if they are overly burdensome. Creating an accountability review of incentives should not create a disincentive for businesses to use the programs put in place to attract them to the State in the first place.

The task force recommends the state develop a consolidated credits form. Ideally, this would be a universal, web-based form which could be completed and returned with monthly CRS filings.

Additional detail on various strategies to collect data is provided in Appendix C.

5. CONFIDENTIALITY

The Industrial Revenue Bond process is a public financing process and as a result, companies come into the process with the full knowledge that private financial information will be publicly disclosed. For example, the City of Albuquerque requires companies with IRB's to report on an annual basis the gross payroll, number of full and part-time jobs at the IRB covered facility, types of positions, benefits offered, and amount of goods and services procured locally by the company.

In contrast to the public process used by most local jurisdictions for IRBs, the New Mexico taxpayer is afforded rights of confidentiality under law. Therefore, for consistency and ease of reporting, the Task Force recommends that all data collected on both tax incentives and IRBs be made publicly available only in aggregate form.

Furthermore, it is important that all taxpayers fully appreciate that information they are providing in their tax returns will become a part of a public report although no taxpayer will be mentioned individually by name. The Task Force recommends that all taxpayers sign a statement acknowledging that their information will be included in a report in aggregate form.

6. VALIDATION AND PENALTIES

The Task Force decided that the most straightforward method to ensure data is provided by companies applying for both the Job Training Incentive Program and the tax credits was to deny any application for credits unless all required information is supplied. The Task Force recommends that applications clearly notify the applicant that the incentive can be claimed only if data is provided.

The Task Force recommends using the existing audit and compliance procedures of the Taxation and Revenue Department to validate tax credits. The Department currently has legal authority to investigate charges of false reporting and penalize any taxpayer that has provided false information. Returns that are otherwise selected for audit for other reasons should also be reviewed for compliance with the reporting program. That being said, the Taxation and Revenue Department should consider whether to add an audit “trigger” that would identify a return as non-compliant with the reporting requirements, and therefore subject to audit.

The Task Force also recommends that State statutes governing Industrial Revenue Bonds be amended to give the State authority to reduce or deny the exemption of state taxes if a company fails to report the required information within 60 days of the issuance of the bond or on an annual basis thereafter. This information should also be included in the closing documents themselves.

7. METHODOLGY TO DETERMINE ECONOMIC IMPACT

Any state that offers tax incentives must be concerned with the effectiveness of those programs, and measuring their economic impact is especially imperative as public revenues dwindle. Competition for new jobs and industry is intense, and incentives play a valuable role in attracting businesses and employment opportunities to an area. But those economic “carrots” come with a price. States rightly must do what they can to insure they are getting the best return on investment.

Until recently, little analysis has been undertaken to determine whether corporate job creation incentives have proven cost-effective or produced the intended number of new jobs and other promised economic benefits. As a result, the effectiveness of individual incentives or portfolios of incentives, whether granted to a single beneficiary company or to a pool of beneficiaries, is antidotal.

INFORMATION NEEDED TO ESTIMATE ECONOMIC IMPACT

No single data collection and analysis methodology provides all of the answers. In general, the ability to link the incentive to the results and to assess the overall impact of the results on the economic condition of the state requires the following:

- A method to gather accurate and defensible facts – how many jobs, what wage levels, where did the employees come from – that are relevant to the individual corporate beneficiary or portfolio of beneficiary companies. Total costs measurements also are important.

- An econometric model (multivariate regression model) through which the facts collected above are supplied as inputs for the purpose of measuring the overall economic impact derived from the linkages of those "facts" or incentive-specific results to other "linked" events in the economy being analyzed.

- Accurate firm data to build hypothetical firm models.

CHALLENGES TO MEASURING ECONOMIC IMPACT

The economic impact of tax incentive programs can be assessed; however, there are challenges facing states in developing a methodology.

- Only relatively recently have states and localities started to require job incentive deals between government agencies and corporations require any data to be collected or analyzed.

- In many instances, data that is collected does not help answer key questions. For example, although the data may indicate the number of jobs created by a company benefiting from a particular incentive, the data might not provide any context for those figures.

- In still other instances, the data may not indicate whether the jobs created meet specific job creation goals, such as jobs in high-growth industry sectors or targeted geographic or economic areas, or above-average wages and benefits.

- Sometimes data is required to be collected but is not independently evaluated or otherwise made available publicly, so that external and impartial evaluators can assess their validity. In short, the transparency that is so highly sought in other areas of public and corporate policy has not been realized in assessing public subsidies to corporations – although not from a lack of effort.

As discussed in Attachment D, there are several methods for evaluating the economic impact of tax incentives, however there is no consensus as to the best way to measure and assess whether they are worth the state's investment. Indeed, due to deficiencies in existing data collection methods, restrictions on access to and use of such data that states currently do collect, and analytical limitations inherent in each of the methodologies themselves, all attempts to analyze the effectiveness of state business tax incentives necessarily have their drawbacks. Nevertheless, given the investment by the State in these economic development programs, a good faith effort to assess their effectiveness is critical.

ALTERNATIVES TO MEASURING ECONOMIC IMPACT

Not every state has the resources or the analytical power internally to build comprehensive economic models from which to draw and communicate fully defensible conclusions. Consequently, measurement has come to mean, more simply, incentive program effectiveness and compliance. These "effectiveness" studies are more like profit and loss statements and, like much financial reporting, can be prepared in such a way as to support one conclusion for one group and quite another for a second group. However, their simplicity is very attractive. Two studies of the same event often produce different conclusions, depending on the timeframe, the methodology, and the vantage point. More and more states are requiring the preparation of basic effectiveness studies or compliance reports in incentive program enabling legislation. Similarly, more and more states are requiring that annual subsidy reviews or impact assessments be made available publicly. For example, Illinois, Connecticut, Ohio and North Carolina all require the review to be on their websites. Other states, such as New Jersey, make the information available for public disclosure after a Freedom of Information Act request is made.

As noted earlier, the easiest and simplest assessment methodology is to ask the beneficiary company to report its results on a recurring basis. A good starting point is to require the benefiting company to complete a results assessment generally in the same form as the original application, supported by corroborating evidence, such as tax returns, 10Ks, and payroll records on an annual basis if not more frequently. The challenge in interpreting and analyzing this data effectively is in focusing on data associated with key concerns, such as:

- Did they create jobs in the target part of the state but eliminate them elsewhere?

- Did they create jobs in the state, but the new employees live over the border (i.e., work in New Jersey but live in Pennsylvania or Delaware)?

- How many different incentives did the company receive – infrastructure development and wage tax rebates? Property tax and income tax rebates? Certain services do not lend themselves to easy costing such as customized services such as expedited licensing or site selection support.

RECOMMENDATIONS FOR MEASURING ECONOMIC IMPACT

The Task Force recommends a two-pronged approach similar to that used by the state of North Carolina approach to measuring the economic impact of the selected New Mexico tax incentives:

- **On an annual basis**, the State collects and publishes information regarding the selected incentives. This annual report would be essentially composites of the relevant data, subject to only minimal analysis. These annual report is made available to the legislature, the Governor and to the public.

- **On a biennial basis**, a more in-depth analysis of the annually collected data is performed, and the resulting report likewise made available to the Executive and Legislative branches and to the public.

The Task Force members voiced strong and divergent views on which evaluation method(s) might be most effective for New Mexico for the detailed biennial analysis. The Task Force therefore recommends that at the outset of the evaluation program, this analysis should be conducted by a research entity outside state government with the expertise and resources at hand to conduct such a study using the most appropriate evaluation model for New Mexico's program. Not only would this likely prove more cost effective to start, but also it insures a degree of independence in the results. One of New Mexico's universities would be an ideal candidate for this mission.

8. AGENCY RESPONSIBILITIES

The Task Force had considerable debate about which agencies are the appropriate collectors of data for reasons of both administrative efficiency and possible conflicts of interest.

The Task Force recommends the New Mexico Economic Development Department collect, maintain and report all data related to the Job Training Incentive Program (JTIP). The Task Force discussed the issues of gathering on-going data for the jobs created by the JTIP and the substantial investment this represents to the State. There was a consensus that this could best be achieved via the Department of Labor's (DOL) employment database, which tracks employment via social security numbers.

DOL's representative on the Task Force indicated that there is considerable precedent for this type of information-sharing agreement between the two Departments. The Economic Development Department is, therefore, currently working with DOL to finalize a Memorandum of Understanding to accomplish this data sharing objective. In this agreement, an individual's confidential information will be protected by aggregating the trainee data. EDD will provide DOL with social security numbers for JTIP trainees and DOL will provide employment status, wage ranges and industry groupings to EDD for inclusion in the annual report on economic development incentives."

The New Mexico Taxation and Revenue Department will create and maintain a database of information on companies which have qualified for and received the selected tax credits and Industrial Revenue Bonds. The Task Force reviewed differing scenarios for the collection of information, and agreed that issues of both confidentiality and integrity made the NMTRD the most appropriate choice for collecting and reporting the data.

Agency coordination. Agency coordination is a critical requirement for the long term success of the evaluation program. It is essential that EDD and the Taxation and Revenue Department coordinate activities so that they are "speaking the same language" in their reports. A common understanding of core terms and concepts is important for the public audience, and even more critical for the success of the biennial report. A cohesive language and framework for the data given to the outside consultant will facilitate its evaluation process and make its results more meaningful.

Agency coordination is also essential for the public outreach component of the new reporting program. As a practical matter, most inquiries about the reporting requirements will likely go to the Taxation and Revenue Department, since they are the public face for most of the tax credit programs. The Taxation and Revenue Department, EDD and any other state or local agencies that might be asked about the reporting requirements must give the public consistent information.

9. LEGISLATIVE ISSUES AND ESTIMATED COST

As the foregoing discussion highlights, there are many approaches to evaluation of tax incentive programs. Because of the wide variety of tax incentive structures, there is no "cookie cutter approach" to program design and implementation of an incentive assessment system.

Specifically, to design a reporting and evaluation process, the following variables need to be considered:

- Reporting years – on what cycle should information be collected and why; and when should reports be done and why, and who should receive them

- Agency coordination – what aspects of the program require or merit agency cooperation to insure the best results

- Systems – which software systems should be considered for data collection and why

- Outreach – how to best get the business community educated and on board with the program

In evaluating these implementation and on-going cost issues, the Task Force considered the experiences in a number of states, including North Carolina, Nebraska, Ohio, New Jersey, Minnesota, Maine and Illinois. While the recommendations represent an amalgam of these various approaches, the extensive and experienced incentive evaluation efforts in both North Carolina and Nebraska made those states particularly helpful in developing the New Mexico strategy.

The starting point for any successful evaluation program is a clear law that outlines the information to be collected and the purpose of the subsequent data analysis. The enabling legislation should also make clear the roles and responsibilities of various agencies, and foster coordination and cooperation between them. A clear legislative template will enable all the players – the state agencies, the business community, the independent entity analyzing the data – to comply with the terms of the program and to appropriately address the issues that the legislature wants to address through this evaluation program.

PROGRAM DESIGN ELEMENTS

The task force considered the four program design elements and recommends the following program elements.

Reporting Year. Data could be collected on either a "tax processing year" basis – i.e. the year for which the State processes the tax information – or a "tax filing year" the company's specific tax filing year. The Task Force recommends that the tax processing year basis be used. This eliminates the confusion that would result from (a) different fiscal year ends selected by different companies; (b) different reporting schedules for different taxes; and (c) extension requests or other delays for individual companies.

The construction of the data gathering rules and system will require an estimated 4-5 months after the effective date of the enabling legislation, and most tax filings for 2005 will have already been submitted. Companies are not currently required to submit most of the data recommended for collection by the Task Force in order to obtain or retain their tax incentives, and any effort to require retroactive submission of that information would be quite cumbersome. Data quality could be hampered by imposing a new set of standards on a past reporting process not designed for this purpose.

Additionally, because obtaining credits will now be contingent on supplying this new information, receipt of 2005 credits could be delayed if it applied to 2005 tax information, while the State develops the program. If 2005 credits are delayed or withheld to secure compliance with this new reporting system, it could be construed as a retroactive legal requirement for obtaining the incentive. Clearly, the State should avoid any possibility that companies in compliance with existing tax incentive filing requirements are penalized as a result of the adoption of this new reporting system.

To further insure that the new reporting and publication requirements are properly attached to the credits, the Task Force recommends not only including the reporting mandates in legislation authorizing this evaluation program, but also amending each of the substantive tax credit statutes to reflect those requirements.

Any delay in the enactment or effective date of legislation supporting this program will necessarily push back the implementation time for data collection, and delay the proposed reporting schedule outlined above.

Systems Design and Implementation. Designing a system that collects data in a user-friendly fashion is paramount to the success of the evaluation program. Design and development of the system will require a coordinated effort from Taxation and Revenue Department, tax preparers, software developers, local governments and the business community.

One of the design key questions is whether reporting information will be added to each individual tax credit form, or whether there will be a separate form created for reporting information related to all of the tax credits. The system must also address how data should be recorded. Generally, most states purchase off the shelf software that is then customized in-house to meet the specific needs and requirements of the reporting system it has chosen.

North Carolina uses two separate mainframe systems (with proprietary DB2 software) for the data. There are separate tax incentive forms that are loaded onto the system and then reviewed by the tax incentive group. The primary tax database is not suited for the tax query needs of developing reports or analyzing tax incentive data. Additional data has to be transferred from the primary tax database into the tax incentive data. For analytical purposes, North Carolina uses a combination of customized Access, Excel and other software.

No specific recommendation is made as to the system the Tax and Revenue Department should develop. Ultimately, the data collection and analysis system must not only collect the information but also do so in a way that allows for accurate and timely aggregation for the incentives individually and collectively. The Tax and Revenue Department will need both the resources and statutory flexibility to design such a system.

Community Outreach. The purpose of the initial community outreach plan should be two-fold: (1) to educate the public about the reporting program's requirements and (2) to build support for the evaluation program. Tax preparers and businesses must understand the process to effectively comply with the program. Similarly, tax software developers must understand the system in order to tailor tax preparation software to meet the requirements of the evaluation program. This outreach needs to be multifaceted taking advantage of web sites, training seminars, hotlines, and other means of communication.

After the program has been operational for at least a full year, the Task Force recommends that the State seek feedback from the relevant stakeholders – businesses, tax preparers, software developers – on how the system is working.

10. IMPLEMENTATION SCHEDULE

The Task Force recommends that the reporting requirements begin with tax year 2006 data collection; commencing in the 3rd and 4th quarter of the year.

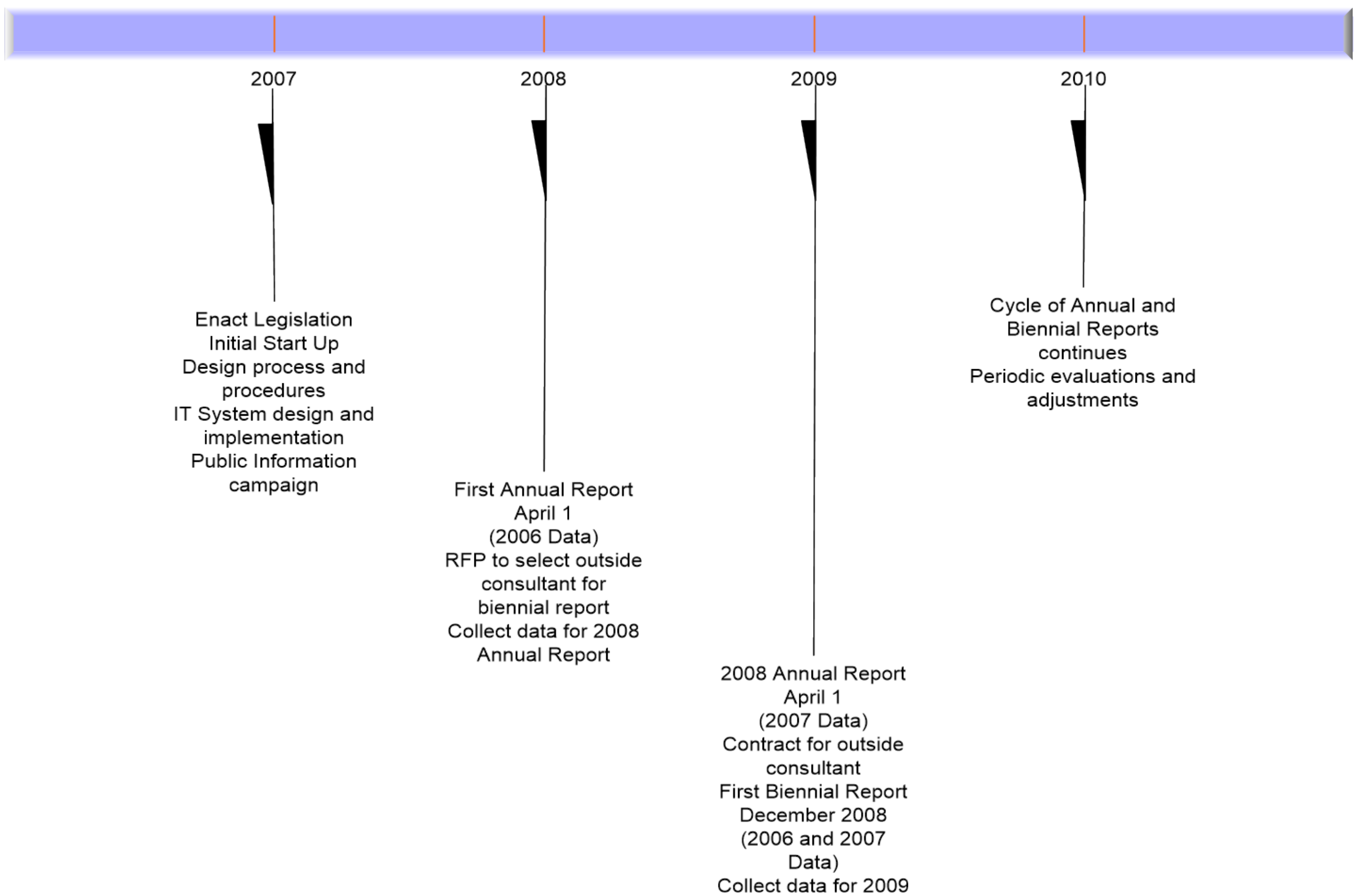
To start, the construction of the data gathering rules and system will require an estimated 4-5 months after the effective date of the enabling legislation, and most tax filings for 2005 will have already been submitted. Companies are not currently required to submit most of the data recommended for collection by the Task Force in order to obtain or retain their tax incentives, and any effort to require retroactive submission of that information would be quite cumbersome. Data quality could be hampered by imposing a new set of standards on a past reporting process not designed for this purpose.

To further insure that the new reporting and publication requirements are properly attached to the credits, the Task Force recommends not only including the reporting mandates in legislation authorizing this evaluation program, but also amending each of the substantive tax credit statutes to reflect those requirements.

Any delay in the enactment or effective date of legislation supporting this program will necessarily push back the implementation time for data collection, and delay the proposed reporting schedule outlined above.

Exhibit 1: Implementation Schedule identifies the timeframe and major tasks involved in the start-up and on-going implementation of a tax incentive reporting process.

Exhibit 1
IMPLEMENATION SCHEDULE



ESTIMATED COSTS

Gathering cost information for incentive assessment programs from other states proved challenging. In many instances, the costs of these reporting and evaluation programs are simply rolled into the overall costs for tax incentive administration, and are difficult, if not impossible, to separate out.

Although the basic steps required are similar among the states, the actual startup costs vary significantly. Uniformly, the upfront development of the systems and programs for reporting processes is expensive.

Nebraska provided some excellent start-up cost estimate information because that state recently revamped its evaluation program. Essentially, the state had to fund an entirely new data system, including software and hardware. Thus, their new system reflects the most current system methodologies and technologies. Attachment F outlines basic cost information obtained from Nebraska and identifies the web site available for in-depth discussion of the state's system and costs.

Based on the experience in North Carolina and Nebraska, it can be estimated that the costs to New Mexico may be as follows:

- Start-up information system development and computer purchases: ranging from $250,000 to $300,000
- Community outreach: ranging from $40,000 to $60,000
- Additional Staff Required for Tax and Revenue Department: 2.2 FTE (not including benefits)
  - Economist: fulltime $80,000
  - Database manager: halftime $40,000
  - Data entry/clerical: halftime $20,000
  - Senior staff oversight: .2 FTEs $20,000
- Additional on-going costs, besides the continuation of salaries, include systems updating and maintenance and continued outreach. These costs are in the range of $30,000 to $50,000
- Biennial report: ranging from $100,000 to $130,000 (includes the contract with the outside consultant to perform the analysis and prepare the report

11. SUMMARY OF PUBLIC COMMENTS

The Task Force felt public input was important to the overall design and acceptance of these recommendations. Accordingly, they solicited comments on their proposed recommendations from a variety of stakeholders, including tax preparers, business groups and economic development professionals throughout the State.

Economic developers agreed with the prospective only format of the proposal. Respondents agreed that any attempt to require reporting on a retroactive basis would place an undue burden on the companies, and noted that there was no legal basis for such post hoc information gathering.

The City of Albuquerque noted that companies approved by the city council for Industrial Revenue Bonds are required to provide annual reports outlining number of jobs, wages, benefits and the types of positions. Albuquerque suggested that the State reporting requirements mirror those of local government to ease the regulatory burden. A copy of the form used by the City of Albuquerque to gather information can be found in this report as Attachment II.

In addition, the City of Albuquerque provides companies the opportunity to explain why they fail to meet employment or wage projections. They believe this provides beneficial insights on problems that might be facing a particular industry or company.

An individual from the tax professional community expressed concern about requiring proprietary information to qualify for a tax credit. The individual questioned the legality of this action. Tax credits and exemptions are traditionally available to anyone who meets the definition of a qualified entity. The individual questioned what the general public would think if these same methods were used to gather data on home owners by requiring data on the mortgage deduction.

APPENDIX A
NEW MEXICO BUSINESS DEVELOPMENT INCENTIVES

Job Training Incentive Program

New Mexico has one of the most aggressive training incentive packages in the country. The Job Training Incentive Program (JTIP) funds classroom and on-the-job training for newly created jobs in expanding or relocating businesses for up to six months. The program reimburses from 50% to 70% of employee wages and required travel expenses. Custom training at a New Mexico public educational institution may also be covered.

Eligible Uses

Customized training is conducted at the business facility or at an educational institution in one of three ways:

- Custom classroom training at New Mexico public educational institutions;
- Training at the business facility, with hands-on skill development, customized to develop unique skills essential to the business; and
- A combination of on-the-job and classroom training.

Rates and Terms

Trainee wages are reimbursed to the company at the completion of the approved training period which ranges from three to six months. Reimbursement is 50% in urban locations, 60% in rural locations, and 65% in economically disadvantaged areas. Jobs which also meet the wage requirements of the High Wage Jobs Tax Credit are eligible for an additional 5% reimbursement.

Instructional cost of classroom training is reimbursed to the educational institution at 100% as outlined in the training contract. Costs include instructional salaries, fringe benefits, supplies and materials, textbooks, expendable tools and other necessary and reasonable costs associated with conducting training.

Industry Targets

New or expanding businesses that manufacture or produce a product in New Mexico are eligible. Under some circumstances, assistance may be provided to non-retail service sector businesses if at least 60% of the company’s revenues are derived from customers outside New Mexico.

Other Conditions

Trainees must be granted full-time employment upon successful completion of training; be of legal working status; have resided in NM for at least 1 year; and shall not have terminated a public high school program within the past three months except by graduation.

Industrial Revenue Bond

The Industrial Revenue Bond Act (IRB) (3-32 NMSA 1978) is designed to provide incentives for manufacturing, industrial and commercial businesses to locate and/or expand in New Mexico. It authorizes municipalities to "acquire, own, lease or sell projects for the purpose of promoting:"

- Industry and trade other than retail,
- Manufacturing, industrial and commercial enterprises, or
- Agricultural products and natural resources.

The act also expands targeted businesses and goals to include:

- Refinancing hospitals or 501(C)(3) corporations,
- Financing projects of independent, non-profit, non-sectarian four-year colleges and universities,
- Promoting the local economy and improving local health and general welfare by inducing private institutions and non-profit health care organizations to provide improved facilities and services, or
- Constructing physician office facilities to attract physicians to small municipalities – having a population of less than 15,000

Industrial Revenue Bonds are exempt from "all taxation by the state of New Mexico, or any subdivision thereof." In addition, the act stipulates that "no notice, consent or approval by any government body…" is required as a prerequisite to the issuance of bonds. However, most local jurisdictions require approval by an elected body, public notice and comment and information from the applicant regarding job creation, wages and total investments.

Manufacturing Investment Tax Credit

The Investment Credit Act (7-9A NMSA 1978) is intended to provide "a favorable climate for manufacturing businesses and to promote increased employment in New Mexico." The act was also developed to level the playing field, as most states do not charge a gross receipts tax or sales tax on manufacturing equipment. The act's definition of manufacturing excludes: construction, farming, certain types of power generation, and processing natural resources and hydrocarbons.

Taxpayers conducting a qualified manufacturing operation in New Mexico may claim an investment credit equal to 5% of the purchase value of new qualified equipment and other property used directly and exclusively in the manufacturing operation. This credit includes equipment purchased under an IRB. In the case where an IRB is used, this results in a double benefit since no gross receipts or compensating taxes are paid on equipment purchases as a result of the IRB. To claim a credit under the Manufacturing Investment Tax Credit, the manufacturer must employ the equivalent of one (1) new, full-time employee who has not been counted in any prior claim as follows:

- One (1) new employee for every $500,000 or portion of that amount for the first $30,000,000 of equipment purchased and
- One (1) new employee for every $1 Million for portion of that amount for equipment purchased in excess of $30,000,000.
- After June 30, 2011, this requirement is modified to require one (1) new full-time employee for every $100,000 in value of the equipment purchased, regardless of the dollar amount of the equipment purchased.

The employer may apply for approval of credit within one (1) year after the end of the calendar year in which the equipment for the manufacturing operation was purchased or introduced into New Mexico. The enabling legislation for the Investment Credit Act authorizes that the Taxation and Revenue Department <u>may</u> require evidence of compliance with the requirements of the act.

High Wage Jobs Tax Credit

High-wage economic-based jobs eligible for an employer tax credit must have been created after July 1, 2004 and before July 1, 2009. The job must be occupied for at least forty-eight (48) weeks and an eligible employee must be paid at least:

- $40,000 if the job is in a municipality with a population of 40,000 or more, or
- $28,000 if the job is in a municipality with a population of less than 40,000.

The qualified employer may claim a credit in the amount of ten (10) percent of the wages and benefits, not to exceed $12,000. This credit is available for the year in which the job is created and for three (3) years following. Employers are required to certify:

- The wages paid to each eligible employee in a new high-wage economic-based job;
- The number of weeks the position was occupied during the qualifying period; and
- The size of the municipality in which the job was created.

The employer must:

- Make more than fifty (50) percent of its sales to persons outside New Mexico during the most recent twelve (12) months;
- Be eligible for the Job Training Incentive Program
- Be growing, with employment greater than the year before;
- Be a resident of New Mexico; and
- Not be a relative of the employer or own more than (fifty) 50 percent of the company.

Rural Job Tax Credit

Article 9E of Chapter 7 of the tax code establishes a rural job tax credit program. For each qualifying job occupied for at least forty-eight (48) weeks, an employer may apply for and be eligible to receive a credit of:

- 25 percent of the first $16,000 in wages paid for a job performed in a Tier One area, defined as a municipality within a rural area with a population of less than 15,000. Claims are made in installments of 6.25 percent per year for four (4) years with a maximum annual credit of $1,000 per job.
- 12.5 percent of the first $16,000 in wages paid for a job performed in a Tier Two area, defined as a municipality within a rural area with a population of over 15,000. Claims are made in installments of 6.25 percent per year for two (2) years with a maximum annual credit of $1,000 per job.

Employers may claim the rural job tax credit for four (4) qualifying periods in a Tier One area, and for two (2) qualifying periods in a Tier Two area. Not all credits, however, may be taken at once. In Tier Two areas, fifty (50) percent of the credit may be taken within each qualifying period; for Tier One areas, twenty-five (25) percent of the credit may be taken with any qualifying period.

The Rural Job Tax Credit legislation stipulates that tax credits may be sold, exchanged or otherwise transferred. The Taxation and Revenue Department is, therefore, authorized to disclose to any person the balance of rural job tax credits remaining on any tax credit document for any period of time.

To obtain this credit, employers are required to certify:

- Amount of wages paid to each eligible employee during each qualifying period;
- Number of weeks position was occupied; and
- Whether the position is in Tier One or Tier Two areas

Technology Jobs Tax Credit

In order to provide a favorable tax climate for technology-based businesses, the legislature established the Technology Jobs Tax Credit (7-9F NMSA 1978). The legislation defines the following:

- Qualified expenditure: expenditure in connection with qualified research at a qualified facility.
- Qualified facility: a factory, mill, plant, refinery, warehouse, dairy, feedlot, building or complex located within the state.
- Qualified research: research undertaken to discover information that is technical in nature, and the application of which is intended to be useful in the development of a new or improved business component of the taxpayer.

The credit has two (2) parts: basic credit and additional credit, each equal to four (4) percent of the qualified expenditures on qualified research at a qualified facility. The claim may be doubled (8 percent) if the qualified expenditure is incurred at a qualified facility in a rural area.

The basic credit can be claimed within one (1) year following the end of the year to expenditure was made. Qualified businesses that increase annual payroll expenses (adjusted for inflation) at qualified facilities by at least $75,000 for every $1 million in qualified expenditures may be able to claim the additional tax credit of four (4) percent of the amount of the qualified expenditure. Credit may be claimed against the taxpayer's compensating tax, gross receipts tax or withholding tax due to the State of New Mexico.

Credits may be claimed on forms provided by the Tax and Revenue Department. If the business ceases to operate for more than 180 consecutive days within a two-year period, the Department is prohibited from issuing any further basic credit to the taxpayer.

Research and Development Small Business Tax Credit

A more recent addition (effective July 1, 2005) to business tax incentive opportunities is the Research and Development Small Business Tax Credit (7-9H NSMA 1978). While qualified research is similar in definition to that of the Technology Jobs Tax Credit, this credit targets small businesses defined as:

- Employing no more than twenty-five (25) employees;
- Having revenues of no more than $5 million;
- Having not more than fifty (50) percent of its voting securities owned directly of indirectly by another business; and

- Making qualified research expenditures for twelve (12) calendar months ending with the month for which the credit is sought of at least twenty (20) percent of its total expenditures.

A taxpayer qualified under the Research and Development Business Tax Credit is eligible for a credit equal to the sum of all gross receipts taxes, compensating taxes or withholding taxes due to the state for the qualifying period. Reporting period begins July 2005 and ends June 30, 2009. Claiming the Research and Development Small Business Tax Credit makes the business ineligible for claims under the Technology Jobs Tax Credit.

APPENDIX B
STATES USING BASIC DATA COLLECTION AND REPORTING METHODS

Many states impose only the most basic data collection and reporting requirements on businesses receiving economic development incentives. These reporting requirements are established through the application and process for receiving the incentive; the accuracy and completeness of the data depend upon businesses' compliance with the disclosure laws. Various state agencies are charged with reporting the collected data to the legislature annually or biennially.

Connecticut

Connecticut provides economic development assistance through local and state government agencies. At the time of application, businesses applying for financial assistance of more than $250,000 must agree to additional annual reporting requirements that assess the progress toward achieving the public policy objectives and threshold indicators. Data to be provided include: company data on jobs created, projected jobs created, number of jobs estimated in initial application and amount of assistance received.

Reports are available to the public and also are provided to the municipal authority in which the project is located.

Illinois

Illinois provides an array of tax credits and tax exemption options offered to businesses for economic development. Companies receiving such incentives are required to report annually to the Department of Commerce and Economic Opportunity on the type and amount of development assistance received, the projected and actual number of jobs created or retained, and the average wages paid by job classification.

Maine

At initial application for an economic development incentive, businesses must identify the public purpose that will be served by the business through use of the incentive, the goals of the business for the number and type of jobs created or retained, and the wage levels of those jobs.

A company receiving over $10,000 in one year must submit an annual report to the Department of Economic and Community Development by August 1st. Forms are mailed by May 15th to those businesses required to report. The report must include:

- The amount of assistance received by the business in the preceding year from each economic development incentive and the uses to which that assistance has been put.

- The total amount of assistance received from all economic assistance programs.

- The number, type and wage level of jobs created or retained as a result of an economic development incentive.

- Current employment levels for the business for all operations within the state, the number of employees in each job classification and the average wages and benefits for each classification.

- Any changes in employment levels that have occurred over the preceding year.

- An assessment of how the business has performed with respect to the public purpose identified at application.

Maine also has created the Economic Development Incentive Commission, charged with gathering and examining information and reporting to the Legislature. The Commission reports every two years on economic development incentives and the effect of all business-related grants, subsidies, tax exemptions and tax credits. Information is provided on the aggregate number of jobs created, wages, and the cost to taxpayers per job created.

Minnesota

The Minnesota Department of Employment and Economic Development (DEED) produces the Business Assistance Report annually. The report for 2003 identified 168 businesses taking part in an array of business incentive programs available through state and local agencies for a total of $29.4 million in subsidies. Businesses received between $25,000 and $29.4 million with the median assistance being $117,160. The number and amount of subsidies has decreased from 2002 when a total of 136 subsidies were awarded totaling $37.1 million. A total of 1,051 agreements have been established since 1995. The majority of agreements are based on job creation and wage goals that must be met within two years of receiving the subsidy.

Grantors are required to file the Business Assistance Form for two years or annually until goals of the agreement are met, whichever is longer. Reports can be filed in hard copy or on the new online system provided by DEED. Local agencies and other state agencies providing business assistance are required to report to the DEED by April 1st of each year; DEED has until August 1st to provide the Business Assistance Report that is made available to the public. The report must include the stated public purpose of the subsidy, comparisons across time periods and across grantors, the amount of subsidy, the number of part-time and full-time jobs created within bands of wages, and benefits paid within the bands of wages. The DEED must also report any companies that failed to meet the requirements of their agreement.

Nebraska

Nebraska has established detailed disclosure and reporting of incentives under the Employment and Investment Growth Act, which provides for various property, sales and income tax assistance. Companies are required to report detailed information to the Department of Revenue yearly.

The Tax Commissioner must report to the Legislature by March 15th each year. The report must include:

- Agreements signed during the year;
- Agreements still in effect;
- Business identity;
- Business location;
- Industry group;
- Specific incentive provided;
- Credits earned;
- Credits used: corporate tax, individual income tax, sales and use;
- Jobs created;
- Total employed by the company in the state for current year;
- Total employed by the company in state for previous years;
- Expansion of capital investments;
- Wage levels;
- Total number of qualified applicants; and
- Projected future state revenue, gains and losses.

The Department of Revenue analysis, based on Legislative Fiscal Office research, projects gains or losses to the program by assuming that 30 percent of the jobs would not have been created absent the incentive. This assumption is based on use of an input-output model that assumes jobs and investments created are cycled through the economy and generate additional jobs and consumption using generally recognized multipliers.

Ohio

The Office of Tax Incentives in the Ohio Department of Development oversees the application and reporting requirements for all economic development incentives. While all companies are required to report annually, those with enterprise zone agreements have more detailed reporting requirements. Businesses in enterprise zones are required to report:

- Number of employees on site before the agreement

- Number of employees at end of reporting year
- Property value
- Relocation information
- New payroll
- property taxes paid
- Property taxes exempted
- Total employment

The State Tax Commissioner must submit an annual enterprise zone report to the governor and legislature.

Texas

Applications for economic development incentives are handled by the Texas Department of Economic Development. The Comptroller of Public Accounts is responsible for maintaining a centralized registry of businesses receiving incentives that are located in reinvestment zones and for tax abatement agreements. Forms for businesses to report are available online.

West Virginia

In West Virginia, companies are required to report tax credits to the State Register. Reports include: type of credit, and dollar value of credit in quarter-million and half-million dollar ranges. The Tax Commissioner reports to the Legislature on a biennial basis on the 21 tax credit programs available to businesses in the state.

APPENDIX C
DATA COLLECTION STRATEGIES

Data collection strategies of job creation incentives essentially follow two basic paths: direct and indirect.

- **Direct data collection** can be self-reported by the beneficiary corporation or accumulated by third party observation and measurement, such as through an audit. A necessary element of direct data collection is identifying precisely which companies accessed the particular incentive program. Some programs by their nature do not lend themselves to this measurement method since any business unit that meets some broad demographic can use the incentive, but external reporting by the company may not be done at that business unit level. For example, a large national retailer may allocate its income to a particular state based on proportionality tests mandated by the state, but that income may not reflect the business activity subject to the incentive. In this case, the indirect method of data collection is all that is available – interpolating from the overall tax receipts.

- **Indirect data collection** is the result of extrapolation or interpolation from primary data sources or the use of secondary sources. Extrapolation often involves a temporal requirement. For example, overall population demographic data may be gathered only periodically, but certain proxies, such as school enrollments, which can indicate overall population growth, are available annually and may be used to indirectly measure targeted outcomes. Indirect sources such as the Standard Statistical Establishment List or the U.S. Bureau of the Census are used to provide information on the number of establishments, employment, and payroll within a particular ZIP code or other geographic unit.

Direct reporting of data by the company receiving the incentive has significant advantages to the State in terms of supplying ongoing data for assessing incentive effectiveness:

- The company shares in the burden of paying for ongoing costs for data collection. Companies devote the administrative time to compile data and submit to the state or granting agency. Thus, this data collection is not subject to the budgetary cycles/constraints or turf battles of government itself.

- Direct reporting of data creates two possible audit points – direct audit observation at the company and indirect audit observations by a tie-in to other corporate data reported to the government, such as corporate income tax and wage tax returns.

Direct Reporting of Data by Third Parties: Audits

Audits often produce more accurate and complete data than self-reporting. Audits also have an advantage in the mechanics of the incentive assessment. Specifically, most audit programs are supported by specific technology that assists an agency in culling analytic data and data values from the documentation generated during the audit. Assessment data collected through virtually any other means will generate additional costs associated with creating data from documentation – either data entry from paper source documents or applying consistent data tags ('field names') to data from disparate sources. Nearly all states doing anything to assess incentive effectiveness are doing so using something similar to the audit method, but doing so on an a specially-commissioned basis whereby the audit data supplements both any required annual or biennial reports and other publicly available information, such as press releases, and general industry and labor reports and analysis.

The problem with audits, however, is that they are expensive. Two approaches to auditing cost-effectively include **relying on the existing tax audit programs** run by most state revenue departments, as is done in North Carolina, or **conducting limited purpose audits** – sometimes called agreed upon procedure audits – with limited audit procedures covering only the economic development-specific activities of only those companies receiving tax incentives. The latter can be further limited by applying dollar thresholds, such as auditing only those companies that receive over a specific amount, an approach taken in Nebraska.

Although the reduced costs of these two kinds of audits may be appealing, both have their limitations and drawbacks. The first method – piggybacking on tax audits – falls short in three ways: the audit timeframes might not overlap; tax audit populations are more heavily weighted to big taxpayers, which may not be the most frequent beneficiaries of the tax incentive awards; and the data collected for tax compliance assessment may not be the data needed to analyze incentive effectiveness. The limited purpose audit requires a larger sample, making it much more costly to do right.

Blending Data Collection Strategies to Accentuate their Benefits and Reduce their Negatives

The experience of North Carolina, which has one of the stronger and more sophisticated data collection and analysis programs, provides examples of realizing the benefits and overcoming the negatives of several of these data collection methods. North Carolina has tackled data collection issues head-on with some success. The independent reports of the William S. Lee tax credits in North Carolina[2], along with

[2] A copy of this report is attached as Appendix B.

interviews with North Carolina Department of Revenue department staff responsible for oversight and annual reporting for the credits, corroborate the imperative of planning in advance for measurement, ownership, and access to data as the best means of realizing benefits and minimizing the negatives. Some lessons learned include:

- Deriving economic development data from the tax return data is difficult. Recognizing the high incidence of taxpayer error and omissions on the tax returns themselves arising from tax preparation software inaccuracies and/or taxpayer training shortcomings, the North Carolina economic development team developed guidance for the Department of Revenue personnel to use in interpreting data.

- The data do not reside entirely at the Department of Revenue; some exist at the North Carolina Employment Security Commission. However, the Commission's reporting scope does not overlap fully with the Economic Development Department's agenda or the total pool of potential William S Lee Act business incentives program participants. Additionally, the databases from the two agencies did not use the same field names for the same relevant fields, so they developed a new indexing system to match and merge information.

- Early in the process, the state staff could not overcome certain data timeliness issues, resulting in a late program assessment report. Some delays were caused by turnover in the Department of Revenue technical personnel, which resulted in a need to re-run the data extract multiple times.

- The software chosen by the Department of Revenue is designed for tax collection, not research purposes. As a result, the effectiveness research that has been completed is not as broad in scope as originally envisioned.

- The William S. Lee Act business incentive program reporting provisions do not include other significant incentive programs, including many individual company incentive packages.

- Analysis of the early years of the William S. Lee Act incentive program is essentially impossible because reporting requirements were not in place and confidentiality requirements limited the state's ability to release data that was available.

Other states, notably Vermont and Florida, report many of the same issues. In Florida, the state Revenue Department is not allowed to identify those companies whose tax returns indicate use or participation in a particular incentive program, especially those embedded in the tax code itself, because tax return data is completely confidential and cannot be disclosed. In Vermont, a battle is being waged over data sharing and privacy between the public/private economic development consortium and the state review agency, which is impeding the review agency’s effectiveness assessment.

APPENDIX D
RESEARCH METHODS FOR IN-DEPTH STUDIES TO MEASURE ECONOMIC IMPACT

At least five commonly accepted methods of research pertaining to economic development incentives appear regularly in the literature.[3] In addition to these regularly noted approaches, we add two more. These methods are:

Survey Methodology

This approach involves surveying executives regarding business investment decisions. The principal advantage of the survey method is that it provides *direct* information regarding important factors in investment decision-making and avoids the complex statistical assumptions that plague data-intensive analysis. Surveys also are not dependent on obtaining data that might either be unobtainable under state confidentiality laws (e.g. company-specific data submitted to the taxation authorities) or not adequately addressed to the questions being asked. In theory, surveys can answer the question of whether a tax incentive resulted in a change in a firm's behavior – although the accuracy of such answers can be subject to a number of biases.

Disadvantages of this approach include the difficulty of locating the individual(s) responsible for firm-specific site location or investment decisions, the response rate, quality and completeness of responses, and the lack of precise measures of the impact of the various factors influencing investment decisions. It can be difficult, for example, to interpret the rankings of factors because of individual subjective interpretation of the rankings. It is also difficult to measure each factor one at a time to provide a more precise measurement of the importance of a single factor (as can be obtained, for instance, through multivariate regression). Since survey samples typically include only those businesses receiving tax incentives, the method is subject to selection bias; it also is subject to response bias, since respondents want more tax incentives whether or not those incentives directly alter their behavior.[4]

New electronic surveys can be used to make this methodology more efficient and provide a better means for feedback.

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[3] See, for example, California Legislative Analyst's Office, *An Overview of California's Research and Development Tax Credit* (November 2003), available at: http://www.lao.ca.gov/2003/randd_credit/113003_research_development.html.

[4] Peter S. Fisher and Alan H. Peters, *State Enterprise Zone Programs: Have They Worked?* (2002), p. 159.

A good example of survey research in action was undertaken during an evaluation of Maine's public investment in research and development. [5] As part of a six-year effort to study Maine's investments in research and development and to provide guidance to the Legislature and Governor to increase Maine's competitiveness, this study sought to answer three questions: (1) *How competitive is Maine's publicly funded R&D and has the state's competitiveness improved over time?* (2) *What is the impact of Maine's R&D investment on the development of Maine's R&D industry? (3) What is the impact of Maine's R&D investment on the level of innovation and innovation-based economic development?* Among the strategies used by evaluators were surveys of recipients of state R&D assistance that is channeled to them through stakeholder organizations, and of research institutions in Maine.

Case Study Technique

This approach examines the effect of specific tax incentives on individual firms. The principal advantage of this method is that it allows the investigative technique to be tailored to specific economic situations and the unique circumstances of individual firms. Case studies provide an in-depth understanding of one or a few tax incentive programs.

The major drawback is that it is difficult to separate other factors in assessing the effects of any incentive measure. In addition, there are the added issues of establishing a basis of comparison for assessing the tax incentive's effect and the difficulty in applying any specific findings to more general circumstances. Case studies can also be used at a state or regional level by reviewing economic and other data before and after a specific incentive was provided. The problem with this approach is that there may be many other factors that influenced the changes in data beyond a change in tax burden; the case-study method is not adept at sorting through such multiple factors. This "counterfactual problem" is sometimes addressed by combining the case study with the survey technique.[6]

A good example of case study research also was undertaken during the annual evaluation of Maine's public investment in research and development, cited above. [7] In this study, researchers undertook case

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[5] Michael I. Luger, Irwin Feller, and Catherine S. Renault, *Evaluation of Maine's Public Investment in Research and Development* (June 2004). Available at: http://www.econdevmaine.com/resources/tourism/Maine_2003_Interim_Evaluation.pdf.

[6] Fisher and Peters, *State Enterprise Zone Programs: Have They Worked?*

[7] Michael I. Luger, Irwin Feller, and Catherine S. Renault, *Evaluation of Maine's Public Investment in Research and Development* (June 2004). Available at: http://www.econdevmaine.com/resources/tourism/Maine_2003_Interim_Evaluation.pdf.

studies of the Maine Agricultural and Forestry Research Station and the Maine Revenue Service's administration of three R&D tax credit programs to try to answer questions regarding the tax credit's effectiveness.

"Hypothetical Firm" Methodology

Under this technique, hypothetical firms of varying sizes, profitability, and industry characteristics are "created" and "placed" in particular geographic locations. Models are then constructed to replicate operating ratios, balance sheets, income, and tax statements for these "make believe" firms. Through these means, the effect of state and local taxes on a firm's performance can be calculated.

Although this method directly measures the impact on profit, cash flow, and internal rate of return of state and local taxes, critics do not believe that it measures the effect of changes in state and local taxes on firms' expansion and location decisions as a result of incentives. There can also be problems in obtaining accurate, real-world firm data. Estimates of these effects can be made with more sophisticated and complex economic models, however, these depend upon a large number of assumptions that must be built into the model, which may allow one to compare the effectiveness of different incentives to each other but does not provide a precise guide to the actual magnitude of the effects.[8]

This approach is gaining in popularity in part because it allows for comparison between companies that do and do not use an incentive and for isolating individual factors. One of the better-known models is the Tax and Incentive Model for Enterprise Zones (TAIMs), designed specifically for enterprise zone analysis.

Econometric Approach

The econometric method is the most popular in tax incentive studies, particularly among academics. This approach represents an attempt to distinguish the impact of non-tax factors from tax-related factors. If data are available and the model is appropriately constructed, the tax impacts can be isolated from the effect of other factors.

Fundamentally, the econometric model is a multivariate model using regression analysis to derive the relationships, or correlation coefficients ("multipliers"), among various data streams to predict the resulting values. A time series model suggests that economic behavior in the future is primarily a function of the passage of time. The research literature

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[8] Fisher and Peters, *State Enterprise Zone Programs: Have They Worked?*

suggests a more widespread use of multivariate models, particularly to achieve a systemic view. More often than not, this sort of econometric modeling and analysis is done by university researchers and less so by other organizations and state agencies. Looking at all of the tax credit programs in a particular jurisdiction as a system is essential because the review process, where it exists, is disjointed and a problem anywhere may thwart the overall analysis of the impact of the tax credit program. A portfolio of incentive programs must reach a stage of maturity where historical data is available for use in the development of projections.

Unfortunately, suitable data are frequently neither available nor easily producible, and properly specifying appropriate models can be a difficult undertaking. This means that construction of a model that is sufficiently robust and complex to reliably measure changes in investment activity due to tax policies, especially if they are small or variable, can be an expensive and time-consuming activity. In the view of Luger & Bae, "The method's most serious disadvantage is that firm-level empirical data are not generally available. Hence, the studies use macro-level data instead. That can lead to an overestimation of program effects because it removes the atomistic behavioral dimension from the analysis." [9] In short, critics do not believe that these models reflect the real-world decision-making processes of companies. These studies also often fail to control for other important factors, such as the quality or value of public services.

Despite these drawbacks, dynamic econometric models increasingly are being used in tax estimation generally, and the sophistication of the models is increasing.[10] Their complexity, however, can make them a cumbersome tool when quick analysis is required.

Computable General Equilibrium (CGE) Modeling

The use of CGE modeling incorporates many of the estimation techniques and methodologies of the econometric approach, and therefore suffers from many of the same data concerns and modeling issues. However, the CGE approach does have the advantage of being able to specify (either based on empirical information or assumptions) structural relationships and interactions between and among economic variables in the model –

[9] Luger and Bae, "The Effectiveness of State Business Tax Incentives: The Case of North Carolina."

[10] A good example of how econometric modeling is used to assess a business tax incentive program can be found in Collins Center for Public Policy and Global Insight Inc., *Florida Qualified Target Industry Tax Refund Program: An Independent Analysis* (February 2005). Available at: http://www.eflorida.com/pressroom/img/QTI_Final_Rpt_2005.pdf#search='tax%20incentive%20effectiveness%202005'

this requires, however, large amounts of data, sophisticated modeling, and extensive computation. In addition, the multi-equation, interlinked nature of the model makes it highly sensitive to assumptions about parameter values. The complexity of the approach makes it costly to tailor to the unique nature of each separate state's tax system.

Compliance Analysis

The government and the incentive-receiving company agree to the kinds of results that are expected to be produced through the incentive. An after-the-fact assessment examines whether the company complied with the terms of the agreement. No modeling of economic impact occurs, and little analysis is done beyond computing averages, such as the amount of incentive funds used to "create" each new job.

In the case of a compliance analysis, there is simplicity, if not clarity. In New Jersey, applicants for the Business Employment Incentive Program estimate the number of additional jobs to be created from the subsidy. Each year after award, the companies report the actual number of newly hired employees. If the company complied with its minimum commitment and the state has certified the receipt of income tax withholdings of the newly hired individuals, the company receives its grant.

Although simple, this analytic method may not yield the data to match the specific state economic development goals. For example, research generally shows that for every 100 new jobs created through a tax cut or an incentive subsidy that mimics the effect of a tax cut, the source of new labor is generally drawn in these proportions from these source.[11]:

- 7 from the ranks of the unemployed
- 16 from the local pool who were either not looking for a job before or who were employed elsewhere
- 77 from in migration

This may or may not match the intended outcomes of the incentive. In short, the data requested needs to be precise enough to permit the desired level of efficacy analysis at a later date. Furthermore, distinctions of this type are especially relevant to evaluating the indirect costs of such subsidies; the public costs associated with in-migration, such as the cost of new public services, pressure on real estate prices, pressure on labor costs, are different than those associated with redistribution of employment.

[11] Timothy Bartik, *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research, 1991), p. 95.

“But For” Analysis

This type of analysis seeks to answer the ultimate question of “But for this incentive, would the company have relocated or expanded here?” At bottom, this is the most important question because it targets a fundamental underlying purpose for incentives: to provide incentives to encourage certain corporate behavior.

This most desirable predictive method is also the most difficult, and we found very few successful examples of a model to answer the “but for” question. All of the basic methodologies discussed to this point have been used in trying to do so – however, there is no consensus on how best to address the “but for” question.

It is probably easier to evaluate outcomes that arise in the situations in which tax incentives or subsidies are granted on a selective, one-company-at-a-time basis, than to do so as to the availability of general tax credit programs. States such as Michigan are trying to include the “but for” analysis and binding company assurances as a condition to receiving a business tax incentive or package of incentives; Michigan, for example, awards 75% of its incentives on a discretionary basis, permitting a more direct answer to the ‘but for’ question. Although this still does not guarantee that the “but for” test has been passed, it does impose a more rigorous screening process on economic development officials and the companies applying for the incentives.

APPENDIX E
STATES USING MORE IN-DEPTH EVALUATION METHODOLOGY

California

In California, the Legislative Analyst's Office (LAO) conducted a limited hypothetical firm analysis to help review and explain the impact of the California research and development tax credit.[12] The hypothetical firm analysis used representative data to explain the R&D tax credit that would be computed for a hypothetical California company, as well as what the California and federal corporate income tax liability would be for a hypothetical California firm.

The LAO also used a basic hypothetical firm analysis to help explain the impact of California's Manufacturers' Investment Credit (MIC).[13] The hypothetical firm analysis applied in this study to demonstrate the impact of the MIC on a hypothetical California firm's California and federal corporate income tax liability.

In both studies, the LAO went on to suggest that if the California Legislature wished to do more detailed analysis, it could apply any of the research methodologies noted above to study the impact of the corporate tax incentive programs.

Louisiana

As an example of an incentive-specific analysis that used econometric modeling, the Louisiana Legislative Fiscal Office estimated the economic and fiscal impacts of the state's film and video tax incentives. Following the enactment of the tax credits, projects participating in the incentives and completing production jumped from $11.8 million in production budgets in 2002 to $188.8 million in production budgets in 2003, and $354.7 million in production budget in 2004. Compensation of state residents employed on projects increased from $75,000 in 2002 to $30.0 million in 2003 and $29.6 million in 2004. Noting that these benefits also come with the price tag of tax credits that must be borne by the State budget – from $1.8 million in tax credits in 2002 to $58.9 million in tax credits in 2004 – the Legislative Fiscal Office sought to estimate the comprehensive economic and fiscal impacts of the film and video tax incentives.

According to the Legislative Fiscal Office, its study used a multi-year, dynamic estimate of the total economic activity associated with the film and video incentive program, as well as the fiscal impact on state government. "Those estimates are based on a 70-sector economic model of the state of Louisiana, commonly known as the REMI model. The model incorporates inter-industry transactions, input substitutions resulting

[12] Study available at:
http://www.lao.ca.gov/2003/randd_credit/113003_research_development.html.

[13] Study available at:
http://www.lao.ca.gov/2002/mic/120502_manufacturers_investment_credit.html.

from changing relative input costs, migration response to changes in expected income, wage responses to changing labor market conditions, changes in local and export market share in response to changes in regional profitability and production costs, and final demand feedbacks."[14] The economic and fiscal effect of this incentive program under these assumptions was estimated for a ten-year period.

As a result of this extensive modeling, the Legislative Fiscal Office concluded that although the film and video incentive program generated additional jobs, incomes, and tax revenue for both state and local governments, government, especially local government, incurred costs of providing public services associated with the production activities. In addition, state government incurred the cost of lost tax revenue when the tax credits were realized. After accounting for the dynamic effects on the economy of the additional film and video production activity, the state could expect to recoup 16% to 18% of the tax revenue it obligates to the program through the transferable tax credit mechanism. Further, the Office noted that estimates generated by dynamic analysis tend to be generous, and a number of aspects of this analysis tended to overestimate the likely true impact of the program.

New Jersey

The New Jersey Commerce and Economic Growth Commission, in consultation with the New Jersey Economic Development Authority, submits an annual report on the state's Business Employment Incentive Program (BEIP), which provides for the partial return of state income taxes on newly created jobs in eligible projects of businesses that are relocating to, or expanding in, New Jersey. As required by statute, this annual report includes such basic data as the number of BEIP agreements entered into by the state during the fiscal year and a description of each; the number of jobs created under each project; the new income tax revenue received from withholdings; the amounts awarded to each project as grants; and an update on the status of projects under each agreement.[15]

When a state public policy organization's independent evaluation of BEIP yielded an unfavorable assessment of the effectiveness of the program, the State Treasurer contracted with Rutgers University researchers to do a more rigorous evaluation of the program, as was required by statute. In analyzing BEIP, those researchers recommended that the program be subject to a comprehensive economic evaluation conducted by researchers outside of New Jersey state government. To overcome the typical dearth of analysis to which incentive programs like BEIP are subjected, as well as the debate that this lack of analysis fosters between program supporters and opponents, the researchers called for the systematic evaluation "to estimate the net

[14] To review the Louisiana Legislative Fiscal Office study, please visit: http://www.lalegisfiscaloffice.com/files/revenue/FilmVideoIncentives.pdf.

[15] To review the FY 2004 annual report, please visit: http://www.njeda.com/pdfs/BEIP_FY2004_AnnualReport.pdf.

benefits to the state of BEIP awards using an economic impact analysis and, thus, add a degree of objective and dispassionate empirical content to the debate."[16] Thus, in addition to determining the public costs of the program incentives to the state, the state should estimate the total economic impact on New Jersey of a project supported by the BEIP award. To do this, the researchers suggested using a comprehensive input-output analysis that "estimates the relationships among sectors in terms of production and consumption for any change in economic activity in any one sector or group of sectors. The empirical linkages are derived from sustained observations of the actual economic interrelationships in the economy and then expressed in a model that enables the estimation of the effects of changes in economic activity on output, employment, income, gross state product, and tax revenues."[17]

North Carolina

North Carolina has a robust system of reporting and evaluating the state's William S. Lee Act business incentive credits. The North Carolina Department of Revenue is required to publish a report on William S. Lee Act credits annually. The annual report includes information on all returns processed during the 12-month period ending December 31 on which Lee Act credits were claimed. The annual report publishes such information as:

- Summary of credits generated
- Summary of credits taken
- Job creation
- Machinery and equipment investment
- Job creation in development zones
- Worker training
- Research and development
- Investment in central offices or aircraft facilities
- Details of credits generated by taxpayers
- Details of credits taken by taxpayers

North Carolina also requires that a biannual study be done on the effectiveness of the William S. Lee tax credits.[18] This report is produced by an independent outside contractor. This effectiveness report uses more sophisticated analytical techniques in an effort to overcome some of the limitations of the annual reporting data, which present

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[16] Joseph J. Seneca, James W. Hughes, George R. Nagle, *An Assessment of the New Jersey Business Employment Incentive Program* (July 27, 2004), available at: http://www.njeda.com/pdfs/BEIP_Report_27_July%202004.pdf.

[17] Seneca, Hughes, and Nagle, *An Assessment of the New Jersey Business Employment Incentive Program* at 23-24.

[18] See, for example, Michael I. Luger, *2003 Assessment of the William S. Lee Tax Act* (July 31, 2003). Available at: http://www.nccommerce.org/publicaffairs/ws_lee/2003_LugerReport.pdf#search='luger%20and%20bae%20tax%20incentives'.

a snap shot of the incentive program based upon the initially reported data and do not reflect actual payments and usage. The process has evolved over time after a difficult beginning because of conflicts as to roles and responsibilities regarding the provision of information. This report will be used as part of the Sunset provision analysis for the Lee Act program.

Vermont

In Vermont, the Office of the State Auditor conducted a compliance and internal control review of the Vermont Economic Progress Council's implementation of the state's Economic Advancement Tax Incentives. Interestingly, this State Auditor review was hampered by the Council's unwillingness to certify that it had provided all information and data requested by the Auditor. As the Auditor's report noted, "This failure to provide such representations is but one example of the many obstacles this Office faced in conducting this review. Accordingly, this report is limited in scope and is based only upon the information actually provided to this Office."[19] This is one stumbling block that occasionally is identified in evaluations of incentive programs by outside, independent entities.

Part of the Auditor's methodology for reviewing the administration of the incentive program was written into the program's authorizing legislation. The tax incentive program's authorizing statute required the use of a cost-benefit model to "measure the present value of the anticipated direct and indirect fiscal benefits … against … the direct and indirect fiscal costs associated with" the tax credits. The Auditor's review noted that a critical assumption of the cost-benefit model is that the economic activity under consideration is new and would not have occurred without the tax incentives.

"Therefore, the Council must apply a 'but for' test to 'determine that 'but for' the incentives, the economic activity would not otherwise have happened or would have happened in a significantly different and less desirable fashion.'" The Auditor concluded that the Council's application of the 'but for' test was deficient and represented a serious internal control failure that may have cost the State substantial tax expenditures for economic activity that might have occurred without them.

The Auditor's review also concluded that the Council made no effort to obtain supporting documentation that would substantiate an applicant's 'but for' statement and thus based its decisions solely on the personal judgment of the members "who have nothing more to go on than the applicant's personal assurance." Also, the Auditor's review concluded that the Council made no effort to verify applicants' financial information, information that often was needed to determine the maximum amount of credit allowed based on schedules in the statute and used as inputs to the cost-benefit model, the results of which helped determine the amount of the awards.

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[19] To review this report, please visit: http://www.state.vt.us/sao/reviews/vepcreport.htm.

Noting that the state's cost-benefit model "employs a sophisticated econometric representation of the Vermont economy in order to estimate the direct and indirect economic and fiscal impacts of a specified investment," the State Auditor's review also concluded that the Council's decisions as to the size of the awards appear to maximize the award rather than the benefit to the state. By analyzing individual business awards, the Auditor determined that the Council had awarded tax credits to seven companies that produced earned 76% of the total net fiscal benefits of the entire incentive program for only 25% of total costs; however, the program also committed 75% of its total costs to produce only 24% of the net fiscal benefits (essentially "spending" $47.7 million in tax credits for all the remaining companies to gain only $7 million in projected net fiscal benefits). The Auditor recommended that the Council meet its fiduciary responsibility to taxpayers by maximizing the return on investment rather than simply offering the full amount indicated by the cost-benefit model.

Virginia

Virginia's Joint Legislative Audit and Review Commission (JLARC) examined the long-term costs and benefits of the state's business incentive programs. Among other analysis, the JLARC's report provided a follow-up on projects awarded four to five years earlier in order to compare measurable benefits with costs and thereby assess program effectiveness.[20] The purpose of this follow-up review of 89 corporate expansion or location grants was to examine to what extent the jobs and investments expected with these projects did in fact materialize, to what extent they were still intact 3½ to 5½ years after the Governor's public announcement of them, and whether the State appeared to recover the money it had put into attracting these companies to Virginia. In general, this follow-up review, which examined actual jobs figures with projected jobs figures, income tax information, and other data, determined that many of the anticipated jobs did not materialize, but projects that exceeded expectations made up for them. In addition, the study found in aggregate that the state's benefits (in terms of direct individual income tax revenues alone) outweigh the costs of these two business incentive programs in about two and a half years. As a result of this follow-up review, JLARC recommended that the state not achieve short-term budget savings by eliminating the state's two largest incentive programs because the long-term loss of revenue would outweigh the short-term budget savings.

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[20] Joint Legislative Audit and Review Commission, *Special Report: State Business Incentive Grant Programs,* (November 2002). Available at: http://jlarc.state.va.us/Reports/Rpt285.pdf#search='Jlarc%20business%20incentives'

APPENDIX F
NEBRASKA FISCAL NOTE

Below are estimates of the cost of the new Nebraska system, including personnel and technology components. Staff from the Nebraska Department of Commerce shared their estimates of costs in several telephone conversations. In addition, the Nebraska Fiscal Note can be found at:

http://www.unicam.state.ne.us/PDF/FiscalNote_LB312_0002.pdf

Nebraska Fiscal Year 2006 start up cost estimates

One time costs:

- Computer software/equipment and changes to computer system: $133,000
  - Approximately $78,000 for the mainframe system, and
  - Approximately $55,000 for items such as equipment for the applications' developer and data collection equipment

- Staff time and costs for developing rules, revising forms, systems design and customization (not including benefits):
  - Revenue Senior Auditor: $6,000 (.15 FTE)
  - Senior Applications Developer: $41,000 (1 FTE)
  - Attorney: $22,500 (.5 FTE)
  - Tax Law Conferee II: $20,500 (.5 FTE)

Nebraska's total estimated start-up costs are $223,000.

APPENDIX G

City of Albuquerque
Industrial Revenue Bond (IRB)
Annual Reporting Requirements

This form, and any supporting documentation for 2005, must be submitted no later than March 31, 2006 to: City of Albuquerque, Office of Economic Development, P.O. Box 1293, Albuquerque, NM 87103, Attention: IRB Industry Liaison. An electronic version of this form can be obtained by emailing Regina Chavez at reginachavez@cabq.gov. (Note: If the form is not completed in its entirety (not counting data omissions previously authorized by the City), it will not be accepted by the City and the company will be held in default for that reporting period. *Any question answered as N/A will be considered incomplete without a detailed explanation)*

1. Company Name:
2. Company Address (street, city, state, zip):

   ____

   ____
3. Company Phone (including area code and fax number)

   (_____)________-______________

   (_____)________-______________
4. Name, Position, E-mail, and Phone Number of Person Preparing Report

   ____

   ____

   ____
5. Data in the report covers the year: Beginning ___01/2005 (mo/yr)

   Ending ___12/2005 (mo/yr)
6. Total Gross Payroll for this reporting year_____________
7. Total Number of Jobs Projected for this IRB Project ________
8. Average number of Full Time Jobs for the reporting period __________
9. Average number of Part Time Jobs for the reporting period +__________

10. Total Average (Part Time and Full Time) for the period =_________

11. List the "type" of jobs created in the reporting period including salary range for each job-type listed. For example: administrative support, manufacturing, executive, etc. (Attach as a separate sheet if necessary.)

12. Please provide information regarding your company's benefit package. Be specific regarding the level of health and dental insurance cost covered by the employer.

13. Please provide a description of reasons for a variance between the number of jobs projected in the IRB application and actual jobs, if any. (Attach as a separate sheet if necessary.)

14. New Hire Demographic Data. Please provide the number of jobs for this reporting period (use table):

Total	Residence at Hire			Gender		Race (Please provide if available.)					
# of New Hires in Reporting Period (this may differ from # of jobs reported on page #1 due to employee turnover)	New Mexico (non Abq Metro)	Abq. Metro Area	Out of New Mexico	M	F	Asian	African American	Hispanic	Native American	White	Other

15. Participation in job training/workforce development programs during this reporting period:
    a. Number of applicant referred by issuer-recognized programs
    b. Number of applicants hired. Referral listed by program. (List number of referrals by referral program.)
    c. Avg. starting salary for applicants hired from issuer-recognized referral programs
    d. List the types of positions that applicants from issuer-sponsored referral programs have been hired to fill. (List by program.)

16. Estimated expenditure of goods and services procured locally that was subject to New Mexico gross receipt tax for this reporting period.

17. During this reporting period, has the company participated in any water conservation, Job Training/Workforce Development, or Scholarship/Youth programs? If so, please describe the company's participation in such programs and any other economic and/or community benefits to the Albuquerque metro area arising out of such participation.

ATTACHMENT 1

The North Carolina William S. Lee Act 2005 Assessment of Results is included as a separate attachment for review. This report, completed by the NC Department of Commerce, is the most comprehensive tax incentive assessment study done by any state.

ATTACHMENT 2

The City of Albuquerque annual reporting requirements for companies using Industrial Revenue Bonds is attached separately.