LFC Program Evaluation Progress Report

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Progress Report:
November 2013

KEY FINDINGS:

1) New Mexico lacks a comprehensive approach for financing and monitoring performance of job creation incentives.
2) Since 2007, the state has issued $64 million in Local Economic Development Act grants without safeguards to ensure jobs are created.
3) Better accountability measures are needed to ensure the Job Training Incentive Program produces sustainable long-term results.
4) The Taxation and Revenue Department cannot accurately measure foregone revenue or impact from tax expenditures designed to spur economic growth.

There is no comprehensive and regular analysis by executive agencies charged with administering economic development incentive programs.

The Economic Development Department reports the number of jobs created based on anticipated jobs reported by companies, not actual jobs created.

Job Creation Incentives (EDD/TRD).

The review focused on three programs to spur economic development in New Mexico: the Job Training Incentive Program (JTIP) and the Local Economic Development Act (LEDA), both administered by the Economic Development Department (EDD), as well as a selection of tax credits related to economic development administered by the Taxation and Revenue Department (TRD).

Background. Job creation incentives exist to attract businesses to the state and build the overall economy. These incentives can make New Mexico more competitive as companies look at different states to locate. However, all three programs have weaknesses in accountability, reporting, and assessing program value. There is no comprehensive review or regular analysis of all job creation incentives to inform budget decisions. The state of New Mexico is unable to demonstrate the return taxpayers are receiving on their dollars.

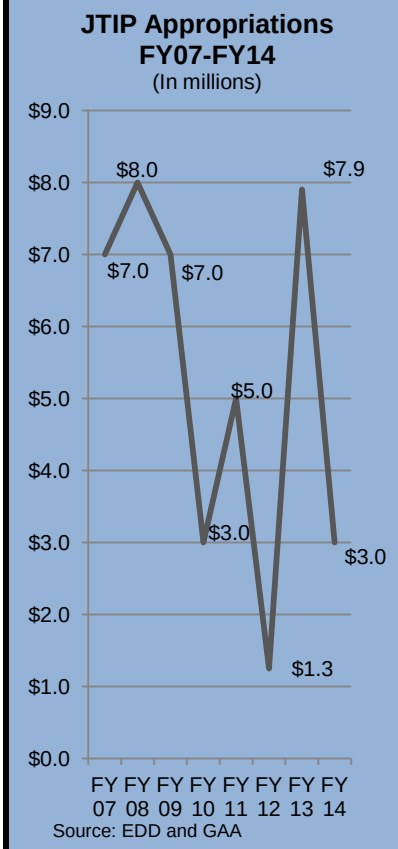
The state uses a mix of incentives for job creation that cost an estimated $467.5 million between FY07 and FY11, including tax expenditures, direct incentives such as the JTIP, and capital infrastructure investment though LEDA. The vast majority of the state's investment in economic development occurs within the tax code through various tax credits, totaling foregone revenue of $374.5 million, followed by grants through LEDA totaling $63 million. The state spends the least on direct incentives under the JTIP, with a total of $30 million expended between FY07 and FY11.

Key Recommendations.

- EDD should include clawback provisions for state funds in its intergovernmental agreements, and require local entities to include clawback provisions for state funds in its project participation agreements.
- EDD should establish a standard requirement for defining the number of jobs created.
- EDD should include job reporting requirements in the intergovernmental agreements for the LEDA that include actual jobs created and retained, holding the local entity responsible for obtaining the information and providing quarterly wage and contribution reports to the state to ensure accountability through the duration of the company's project participation agreement.
- EDD should institute state-specific minimum wage and job count requirements to fully assess JTIP reimbursement to drive economic development goals for the state.
- EDD should require JTIP recipient companies to report on job retention and wages for a period of time after final reimbursement for longitudinal analysis, such as three to five years.
- TRD should research and formalize a measure of economic return to the state from job growth in conjunction with economic research resources such as the Bureau for Business and Economic Research at the University of New Mexico (BBER) or the Arrowhead Center at New Mexico State University.
- TRD should follow statutory requirements on the reporting of economic development tax expenditures.

Originally created to expand employment in manufacturing, JTIP now primarily funds call center jobs.

The High Wage Jobs Tax Credit grew from $9.3 million to $48.1 million, or 520 percent, between FY11 and FY12, at a time of minimal job growth.

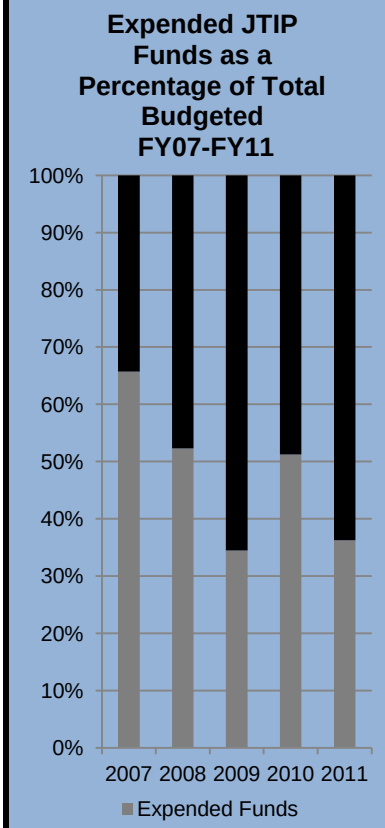


JTIP expended $2.9 million in FY13. The program received a $7.9 million appropriation in the 2012 GAA.

- TRD should establish criteria for tax expenditure analysis using recommendations from the PEW Center for the States as a guide.

Reported Progress to Date.

- In October 2013, TRD released the 2013 Tax Expenditure Report. While this report does better categorize tax credits by the intended purpose (economic development, health care, etc.), the report fails to effectively quantify economic return to the state as recommended in the evaluation. TRD notes throughout the report that certain analyses could not be performed due to a lack of detailed tax return data, an issue also identified in the evaluation.
- EDD was set to release the statutorily-required statewide five-year economic development plan at the November Economic Development Commission meeting. However, the topic was tabled until December. Ideally, this plan should incorporate all agencies that impact economic development in the state: EDD, TRD, the Workforce Solutions Department (WSD), the Public Education Department, and the Higher Education Department.
- LFC staff has continued refining a cost per job methodology that was first included in the 2012 LFC evaluation of EDD and TRD. The newest analysis goes beyond JTIP and LEDA funds, but also looks at marketing efforts at the New Mexico Partnership, the Tourism Department, and the Cultural Affairs Department; research and development programs at the state's universities; specific programs such as the TANF Workforce Program and Small Business Development Centers; and an expanded list of tax credits impacting economic development. Some highlights include:
    - The highest costs per job are being generated by equity investment through the Small Business Investment Corporation ($62 thousand per job created) and the Film Production Credit ($60 thousand per job created.)
    - The lowest costs per job created include Small Business Development Centers ($3.3 thousand per job created) and the Rural Jobs Tax Credit ($2.9 thousand per job created.) The full analysis will be included in LFC Volume III which will be published in January 2014.
- EDD continues to report job numbers based on company announcements as opposed to actual jobs created. This falsely inflates job creation measurements. LFC and Department of Finance and Administration staff worked with EDD to better define what constitutes job creation for FY15.
- The evaluation advised that the value of training an employee receives could extend beyond current employment, recommending that EDD work with WSD to measure the long-term effects of JTIP participation. EDD reports that it has requested employment status and wage updates from companies as part of its annual retention study, which has been performed since 2007. EDD is working with WSD to gather data from unemployment insurance reports for reporting retention statistics.



Source: EDD

Legislative Update.

House Bill 641, which passed and was signed into law in 2013, included updated provisions around the High Wage Jobs Tax Credit creating a time limit for filing for the credit, defining how a job can be created (not through merger or acquisition), limiting eligibility to those companies eligible for JTIP, and quantifying how wages are to be calculated. Furthermore, starting in FY16 the annual salary requirements for the credit will increase to $60 thousand for urban jobs and $40 thousand for rural jobs. Previously, the salary requirements had been $40 thousand for an urban job and $28 thousand for a rural job. The Consensus Revenue Group is estimated $100 million in foregone revenue from the High Wage Jobs Tax Credit for FY14 due to increased filings before the eligibility parameters change.

House Bill 352, which also passed and was signed into law in 2013, requires that for any public entity (state, county, municipality) providing economic development funding to a qualifying entity (a business), security must be offered to be leveraged if the entity doesn't meet the requirements set out in the project participation agreement. Requirements could be jobs created, expanded tax base, or other acts that expand the economy. There is no definition in the bill of what constitutes economic expansion. If the business fails to meet required output in the agreement, then the involved public entities would be compensated in proportion to what the business failed to generate in economic expansion. This legislation addressed the LFC recommendation to statutorily require clawbacks in agreements tied to LEDA.

Outstanding Issues.

At the time of the LFC evaluation in 2012, no comprehensive review of all economic development incentives was being performed. A thorough review would involve at minimum EDD and TRD, but WSD and other agencies could also play a role in this process. As of the publishing of this progress report, agencies involved in economic development have not jointly reviewed economic development programs they oversee. Agencies continue monitoring their role in economic development in a piecemeal fashion.