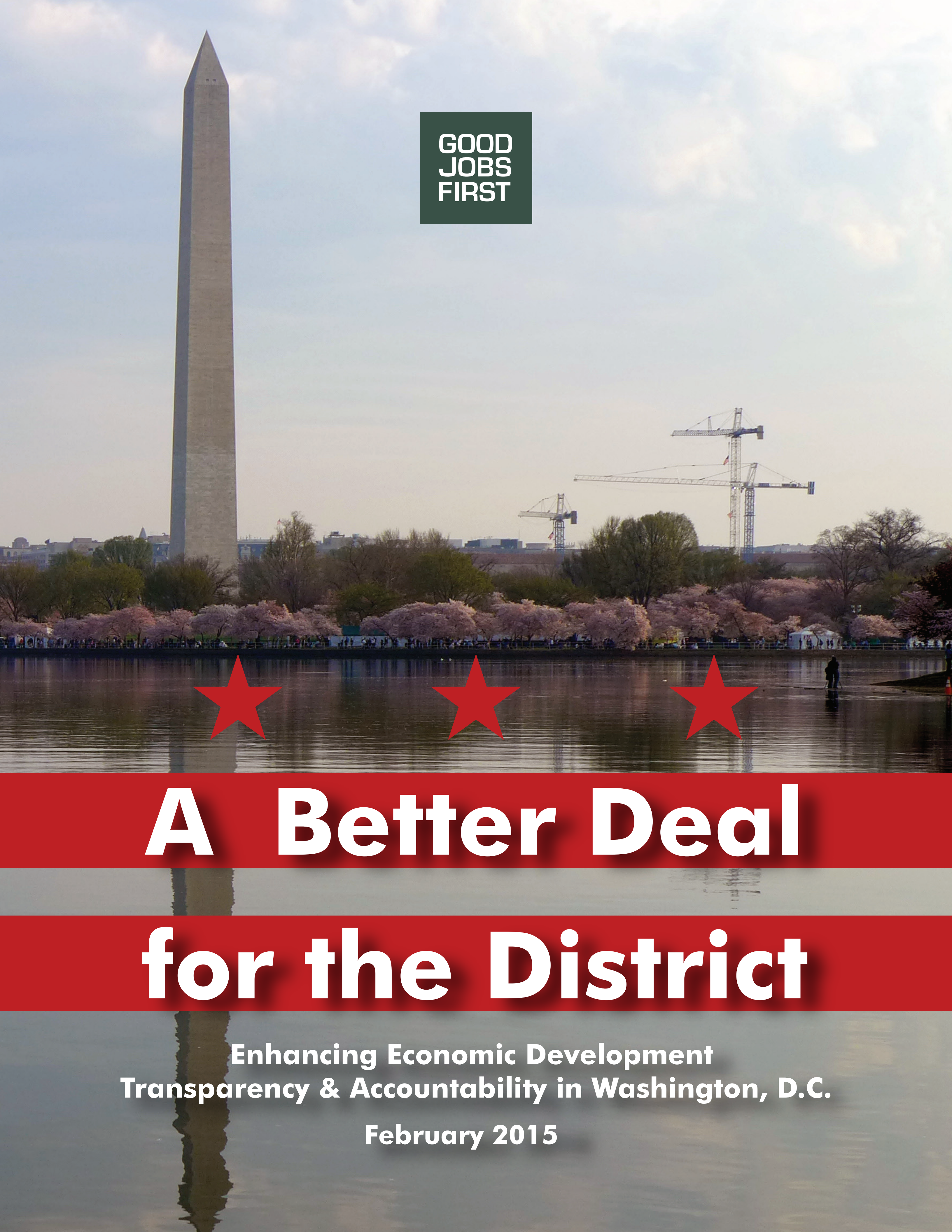

GOOD JOBS FIRST

A Better Deal for the District

Enhancing Economic Development Transparency & Accountability in Washington, D.C.

February 2015

A Better Deal for the District:

Enhancing Economic Development Transparency & Accountability in Washington, D.C.

by Thomas Cafcas

GOOD JOBS FIRST

February 2015

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Commissioned by Baltimore Washington Laborers
and Public Employees District Council

Executive Summary

The District of Columbia has embraced four best-practice economic development policies (local hiring, fiscal impact analyses, the debt cap, and a Unified Economic Development Budget or UEDB), but it remains behind on many basic accountability standards.

Broadly, the District has four major shortfalls: failure to set job creation and job quality standards, lax reporting on project outcomes, failure to enforce existing standards, and the need for enhanced online transparency. An examination of documents received pursuant to an information request from the District's Chief Financial Officer highlights the poor record-keeping, low standards, and lax enforcement on economic development deals in the District.

However, experience shows that the District can rapidly change course. For example, enactment of the UEDB raised D.C.'s ranking on job subsidy transparency from dead last to 26th among the states. The District of Columbia can build upon its past progress by disclosing the details of subsidy projects, reporting job creation data and wage and benefit rates for subsidized projects, requiring strong standards for job creation and job quality, and recapturing subsidies when deals fail to meet performance standards.

Drawing from best practices across the nation, the most important policies for the District to consider in the near future are:

• Building an online transparency portal to digitize existing records and make them easily downloadable, similar to Maryland, Illinois, and Louisiana.

• Upgrading what the District requires in return for economic development subsidies. Neighboring jurisdictions like Maryland and Virginia have stringent job creation targets. States such as Virginia and North Carolina also mandate market-based wage rates, meaning that subsidized jobs must pay better than average for that labor market.

• "Watching the store" by enforcing its economic development standards with recaptures, recalibrations, and/or rescissions if recipients do not meet performance benchmarks.

The District's Status on Adopting Economic Development Subsidy Best Practices	
Already Adopted by DC	**Not Yet Adopted by DC**
Local hiring requirements	Online database of subsidies and their details
Fiscal impact analyses	Reporting projected and actual number of jobs created
Debt cap	Reporting projected and actual wages for jobs created
Unified economic development budgets	Establishing job quality standards
	Establishing market-based wage standards
	Recapturing subsidies when deals fail to meet predetermined standards

Introduction

With a new mayor and newcomers to the Council of the District of Columbia, the time is ripe for the city to re-evaluate its approach on economic development. The District was an early-adopter of a handful of best practices in economic development, but other leading policies have been overlooked entirely.

States with Subsidy Best Practices Not Yet Adopted by DC	
Not Yet Adopted by DC	**Best Practice States**
Online database of subsidies and their details	Connecticut, Illinois, Louisiana, Maryland
Reporting projected and actual number of jobs created	Connecticut, Illinois, Iowa, New York, North Carolina, Wisconsin
Reporting projected and actual wages for jobs created	Illinois, Louisiana (film), New York (IDAs)
Establishing job quality standards	Delaware, Georgia, Kentucky, Iowa, Maryland, Nevada, North Carolina, New Jersey, Oklahoma, South Carolina, Vermont
Establishing market-based wage standards	Georgia, Iowa, Maryland, Nevada, North Carolina, Oklahoma, South Carolina, Virginia
Recapturing subsidies when deals fail to meet predetermined standards	Connecticut, Delaware, Georgia, Louisiana, Maryland, North Carolina, Vermont, Virginia

New leadership provides a chance to make economic development policies more targeted, effective, and transparent. The purpose of this report is to highlight past successes, identify shortfalls, and chart a new course for economic development policy in the District of Columbia.

The District's economic development policy revolves around subsidies. Over the past decade, the District of Columbia has awarded nearly $1.7 billion in economic development subsidies, mostly in the name of job creation. [1] These include property tax abatements, property tax exemptions, Payments-In-Lieu-Of-Taxes (PILOTS), and Tax Increment Financing (TIF). The growing use of economic development subsidies raises questions about the tangible benefits of these projects.
For example, how many jobs actually materialize, how many District residents gain employment, and what are the wages and benefits associated with subsidized jobs?

Many of these projects are sold to taxpayers on the claim of a net economic benefit to the District: residents get good jobs, which reduces the costs of safety-net programs, increases revenue from income, sales and property taxes, and spurs spending in the local economy. But promises about job creation and economic impacts do not always translate into realized economic activity. Absent rigorous safeguards, there are numerous ways companies can skirt the good intentions of a job creation program and deliver less than adequate results.

Over the years, Good Jobs First has identified and fine-tuned remedies to ensure that governments attain the greatest return on their economic development investments. Over a decade of research on the subject has shown the key to ensuring quality economic development lies in transparency, high-quality standards, and enforceable accountability.

Overall, it is our assessment that the District still needs to implement a range of policies to ensure accountability and maximize the return on investment to taxpayers.

The D.C. Auditor, for example, has found that the District frequently fails to enforce requirements associated with economic development deals, and that many projects fall short on their promised benefits. [2]

Investigative journalists have documented that the largest subsidy recipients are also major campaign contributors to elected officials. [3] Whether there are corrupt transactions is unclear, because outcome data are unavailable to the public. Without strong standards and clear accountability for subsidy deals, elected officials may be reluctant to enforce economic development promises and withdraw subsidies from campaign contributors who fail to deliver.

Past Successes in the District

The District has already proven itself as a capable innovator in the economic development arena. Four important policies stand out as cutting edge:

• Local hiring policies;

• Regular use of fiscal impact analysis by the Chief Financial Officer (CFO);

• Establishment of a debt cap, including economic development borrowing; and

• Unified Economic Development Budgeting (UEDB).

Local Hiring

The District adopted local hiring rules in 1984, long before most cities. However, a negative audit in 2010 revealed lax oversight on the District's local hiring policies. The audit found that the District had failed to secure 361 jobs for local residents and $14.3 million in earnings on a handful of projects by not enforcing the policy. [4]

In 2011, the District worked to improve the policy, revamping its local hiring rules through a new First Source law that strengthened hiring targets and enhanced enforcement mechanisms. Good Jobs First highlighted Washington's local hiring successes in a 2012 report entitled *Taxation without Employment: The Case for the District's Strong Local Hiring Rules*. [5]

The District has proven itself capable of succeeding on local hiring policies. District residents accounted for 34 percent of all work hours on the Nationals baseball stadium and 51 percent of all new hires on the project in 2006. In 2011, the Marriott Marquis Hotel project continued the upward trend by recruiting 64 percent of new hires from the District and logging 42 percent of all the work hours with District residents.

Fiscal Impact Analysis and the Debt Cap

Under the leadership of the District's previous Chief Financial Officer (CFO) Natwar Gandhi, two key economic development practices were adopted: fiscal impact analyses and a 12 percent cap on the share of the city's budget that may be put towards debt service.

The practice of evaluating the costs of tax breaks and other forms of economic development subsidies through a fiscal impact analysis enables public officials to make more informed decisions. While these analyses do not measure the fiscal benefits of development deals – that is, whether a project is ultimately a boon to the District's treasury – they do allow officials to know how much each deal will cost the District. In many respects, this is more useful to decision makers because economic impact models can often paint too rosy a picture based upon flawed assumptions.[6] The CFO's office also projects fiscal impacts beyond the four year financial plan window, an important practice because the costs of a deal can play out many years down the road.

The District also recently adopted another fiscal impact analyses best practice. The Tax Transparency and Effectiveness Act of 2014, included in the FY 2015 Budget Support Act, requires an economic impact statement for subsidy projects focused on job creation and wages. [7] Beginning in 2016, city council rules provide the Budget Director with discretion to prepare an economic impact analysis for Council during a bill's first reading.

The 12 percent debt service cap is important for two reasons. One, it gives bond investors confidence in buying District-issued debt obligations. Two, it puts a large portion of the District's economic development spending on equal footing with other types of borrowing in the District's budget. Spending caps are not unusual: Maryland has a self-imposed 8 percent limit on the amount of revenue it can put towards principal and interest on bonds. [8]

When the District's limits were created in 2009, debt service on economic development items was a significant contributor to debt, especially PILOT and TIF bonds.

Debt caps have value: budgeting is the allocation of scarce resources, and too often economic development spending receives less scrutiny because it is structured as an "off-budget" tax expenditure – tax revenue that is unpaid or gets diverted from the general revenue fund. Borrowing costs on economic development projects deserve equal weight with the revenues needed to maintain the numerous government services and facilities that make the District an attractive place to do business. These include a world-class transit system, bridges and roads without heavy congestion, public spaces, access to airports and regional rail networks, public utilities, clean water, fast response times in emergencies, among others.

Unified Economic Development Budgets

While many cities and states fail to account for the various ways in which economic development dollars get spent, the District was an early adopter of Unified Economic Development Budgets (UEDBs). UEDBs are a Good Jobs First best practice. They list all forms of economic development spending in a single report, enabling decision makers to grasp the often-hidden budgetary impact of economic development spending. UEDBs help reveal the true costs of subsidy deals. Economic development projects can last decades, so decisions made by past officials can have revenue impacts far into the future.

The District began publishing UEDBs in 2011. Its UEDB provides aggregate program costs, but also project-specific, company-specific spending data. As a result, in January of 2014 the District improved its ranking from dead last in a previous Good Jobs First report card study to 26th nationally in our report *Show Us the Subsidized Jobs: An Evaluation of State Government Online Disclosure of Economic Development Subsidy Awards and Outcomes*. [9]

Economic Development Shortfalls

Although the District is embracing a handful of economic development best practices, it is lagging behind on transparency, enforcement, and accountability. We identify a few key shortfalls in policy:

• Lack of enforceable job creation and job quality standards;

• Lax reporting standards on subsidized projects; and

• Poor record keeping and an absence of online transparency.

Example Form FP-161 Submissions Acquired Through Information Request

2. State, in detail, how the exempt property, identified by the square and lot or parcel and lot, was used during the reporting year indicated above. Include both buildings and grounds:

100% of this lot, 58,916 SF, is part of Safeway's retail premises and is 100% exempt. This property benefits from the grocery store ~~abatement~~. exemption. The property was operated as a grocery store all last year (2013) and is in compliance w/ DC requirements regarding grocery store exemptions.

2. Describe the community benefits, as identified in this law, provided by the property during the reporting year. If none were provided, describe the progress made toward providing these benefits.

Affordable homes from 60% AMI or lower. Owner will contribute into public benefit fund from "available cash flow". There was no available cash flow for the reporting period.

Good Jobs First has ranked all 50 states and the District numerous times in the past several years on economic development policies. In December of 2011, our report *Money for Something: Job Creation and Job Quality Standards in State Economic Development Subsidy Programs* ranked D.C. 51st, dead last. [10] In January of 2012, our report *Money-Back Guarantees for Taxpayers: Clawbacks and Other Enforcement Safeguards in State Economic Development Subsidy Programs* again ranked the District dead last. [11]

Following improvements in its local hiring statute and the UEDB enactment, the District has attempted to strengthen subsidy accountability. As part of the FY2012 Budget Support Act, the city enacted the Exemptions and Abatements Information Requirements Act of 2011. This law establishes a number of important transparency and accountability reforms. [12]

The law requires the CFO to collect annual data from subsidy recipients about the resulting community benefits. Recipients must provide the information to continue to qualify for subsidies. While the improvement is a step in the right direction, the law was generally written, leaving the agency broad leeway to interpret the requirements. For example, the law does not require the agency to collect precise outcome data on the jobs created or wages paid by subsidized projects, nor does it clearly direct the agency to collect information on specific economic development outcomes, or publish the information.

Good Jobs First made an information request with the CFO's office to assess how the new law has been implemented and determine what type of information is reported on Form FP-161. The form is the new accountability document the agency created pursuant to the law. The form asks subsidy recipients to, "[describe] community benefits provided or the progress made toward providing such benefits pursuant to such law."

Our initial request for all Form FP-161 responses was denied by the CFO's office. The office claimed that the records only exist in paper, and had not been digitized. Because the records were not digitized or organized for such a request, the office asserted that our request was "overly broad" and needed to be narrowed.

In a revised request, we asked for Form FP-161s filed by specific recipients of a condominium development tax abatement, a tax exemption, a qualified high-technology company, and a TIF project. The Form FP-161s we received covered supermarket tax exemptions, condominium development project tax abatements, and exemptions with affordable housing set-asides. [13]

The agency responded that recipients of TIF and qualified high-technology companies are not required to file Form FP-161. The Adams Morgan Hotel, a tax exemption recipient for which we requested information, was said to be subject to the requirements, but will not file its first FP-161 until FY 2015.

It is surprising that TIF recipients are excluded from filing Form FP-161 and detailing community benefit outcomes. Before approving TIF deals, the CFO conducts an extensive analysis that includes determining what types of benefits a TIF will deliver to the community.

As the example on page 7 shows, submissions were difficult to read and reporting on tangible community benefits was very limited. Moreover, job creation and job quality standards that could have been attached to the deals were absent: subsidized condominium developments resulting in construction jobs and continuing support for grocery stores could have easily included job creation and wage thresholds.

It is a best practice to include job and wage standards. Many states and cities have long-standing programs with predetermined economic development goals and benchmarks. In contrast, District subsidy packages typically are ad hoc, written into law at the request of a specific recipient or industry. [14]

One of the best examples of this problem is the Living Social subsidy package.[15] Originally, the deal included no job creation standards or money-back guarantees for taxpayers should the company fail to live up to its end of the bargain. Ultimately, attaching those standards saved taxpayers from giving away millions in unearned subsidies: years later, the company is still falling short on job promises. [16]

The original Living Social package is hardly the only example of D.C. granting deals hastily without adequate public process, oversight, or incorporation of best practices.

There are numerous examples in which the Budget Support Act has been utilized as the main vehicle for sidestepping a typical bill hearing and approving a subsidy. For example, the FY 2015 Budget Support Act submitted to the Mayor by the Council included a permanent property tax abatement for the Carver 2000 Senior Mansion and a property tax abatement for the Whitman Walker Clinic. [17] There are huge drawbacks to an off-the-cuff approach: standards are never consistent and opportunities to implement best practices are missed.

Fiscal Year	Recipient	Program	Approved Loan Amount	Loan Guarantee Amount	Total Project Costs	New Jobs	Retained Jobs	Promised Trainees	Maryland Local Hires	Number Of Maryland Businesses	Job Reporting Required Y/N
2013	Bechtel Power Corporation	Sunny Day Cond. Loan	$9,500,000.00	$0.00	$9,500,000.00	0	1250	0	0	0	Y

Example Maryland Posts Economic Development Data in an Online Database

Recommendations

Although the District of Columbia lags behind on some key transparency and accountability practices, several modest policy changes could make the District a top-tier jurisdiction with smarter economic development deals. Our research indicates that the District of Columbia can continue building upon its transparency and accountability momentum:

• Disclosing subsidy deal details;

• Reporting job creation and job quality outcomes for projects;

• Requiring strong job creation and job quality standards; and

• Recapturing subsidies when deals fail to meet predetermined job quality and/or job creation standards.

Disclosing Subsidy Deal Details

Without access to basic information on subsidized projects, the public cannot know whether an economic development deal is a good use of scarce taxpayer resources. While the District has made the step to publicly report which companies are receiving subsidies through the UEDB, disclosure of details such as actual job creation and wages paid, and whether a deal is completed, active, terminated, or extended are transparency best practices.

The best way to disclose this information is through an online database of economic development subsidy deals and their details. Databases save agencies time and money in complying with information requests like ours. [18] Some states and cities also include this information in annual reports, as well: we think both practices are good for informing the public. Ninety percent of some 238 programs we rated on transparency in 2012 required recipients to report on outcomes. To adequately inform the public, the District should also disclose whether an enforcement action was taken and, if necessary, on what basis. This disclosure ought to state the amount of the penalty and the form it took: return of subsidies already given, rescission of future subsidies not yet awarded, or a recalibration.

The District has experience informing the public about private sector activity. Since 2011, the District has collected and posted similar types of information about energy and water usage for all large private buildings. [19] Open benchmarking is a key strategy to ensure sustainability objectives are achieved. Economic development deserves a similar level of public disclosure.

Reporting Job Creation Outcomes for Subsidized Development Projects

The best way to show the value of an economic development deal is to disclose outcomes, especially job creation figures. Cities and states around the nation frequently provide clear reporting about the projected number of jobs to be created on a project and distinguish between permanent positions and the results of training programs. A handful of states also identify upfront the projected number of construction jobs on a given project, distinct from permanent job creation. For example, Louisiana does this on a number of programs, including the state's industrial tax exemptions in which a state board awards local property tax exemptions to companies. [20] In New Jersey, two programs report projected construction job creation in addition to other types of job creation. [21]

Self-reporting by subsidy recipients is one way to gather job creation data, but the best practice is to add independent verification by state and local governments through unemployment insurance records and/or onsite payroll inspections. Across the nation, three-fifths of the 248 state economic development programs we surveyed in our 2012 study used some form of independent verification to confirm the veracity of reported data. The District of Columbia already independently verifies outcomes on local hiring requirements.[22]

First Source requirements and housing outcomes (like Maryland), could also be incorporated into transparency reporting. Disclosing the wages of jobs generated by subsidies is another practice adopted by states leading the way on economic development accountability. Illinois'

Example Louisiana's Database Details Job Creation Outcomes

LED LOUISIANA ECONOMIC DEVELOPMENT

FAST LANE

Login | Register | Search | Assessors Report

Application #20080043-RTA

Business Information

Business Name:	Poydras Properties Hotel Holdings Company, LLC dba Hyatt Regency Hotel	Project Address Line 1:	500 Poydras Plaza
		Project Address Line 2:	
Project Begin Date:	03/01/2008	City:	New Orleans
Project End Date:	03/01/2010	State:	LA
Project Type:	Renovation	Zip Code:	70112
Project Name:	500 Poydras Plaza	Phone:	( ) - Ext:
Project Description:	This is a compete renovation of a vacant and destroyed hotel.	Fax:	( ) -
		Project Parish:	Orleans
		District: (if Orleans)	1
		Is the Project within city limits?	No
		NAICS code:	72111

Project Estimated Investments Costs		Project Estimated Number of Jobs		Project Estimated Payroll	
Building & Material:	$75,000,000	New:	650	New:	$0
Machinery & Equipment:	$60,000,000	Existing:	0	Existing:	$0
Labor & Engineering:	$15,000,000	Construction:	250	Construction:	$15,000,000
TOTAL:	$150,000,000	TOTAL:	900	TOTAL:	$15,000,000

Gaming		Incentive Program
Is there a gaming activity at this project site?	No	RTA
Are any owners involved in any gaming activities elsewhere ?	No	

RTA Contact

Prefix:	Mr.	Title:	Tax Consultant
First Name:	Karl	Company Name:	Real Estate Tax Group, LLC
Middle Initial:		Email:	karl@realestatetaxgroup.com
Last Name:	Kehoe	Phone:	(504) 866-6506 Ext:
Suffix:		Fax:	( ) -
Mailing Address 1:	5500 Prytania St., PMB-521		
Mailing Address 2:			
City:	New Orleans	State:	LA-Louisiana Zip Code: 70115

Corporate Accountability for Tax Expenditures Act 93-552

Annual Project Progress Reports for 2010

Archer Daniels Midland Company

IV. Job Creation and Retention Data

Program Type	IDOT Economic Development Program
Agreement Number	07 DTA60706
Assistance Amount	200,000.00

Number of Employees At the Time of Application

Job Classification	Avg Annual Salary	Positions	Full-Time	Part-Time	Temporary
Administrative/Technical/ Office	57126.00	7	7	0	0
Production Worker	25396.00	20	20	0	0
Totals:		27	27	0	0

Number of Jobs Stated in the Agreement that would be Created at the Site as a Result of Assistance

Job Classification	Avg Annual Salary	Positions	Full-Time	Part-Time	Temporary
Administrative/Technical/ Office	45000.00	7	7	0	0
Production Worker	25000.00	28	28	0	0
Totals:		35	35	0	0

Number of Employees As of the Date of the Report (12/31/2010)

Job Classification	Avg Annual Salary	Positions	Full-Time	+/-	Part-Time	+/-	Temporary	+/-
Administrative/Technical/Office	63880.00	16	16	9	0	0	0	0
Production Worker	44138.00	57	57	37	0	0	0	0
Totals:		73	73	46	0	0	0	0

I, Ray Young, as the chief officer or authorized designee of the recipient, verify that the information in the progress report contains no knowing misrepresentation of material facts upon which eligiblity for development assistance is based. I further certify that, to the best of my knowledge, the recipient is in compliance with the development assistance agreement(s) between, or on behalf of, the recipient and the Illinois Department of Commerce and Economic Opportunity and/or the Illinois Department of Transportation and/or the office of the Illinois State Treasurer

Example Illinois' Database Discloses Job & Wage Outcomes for Each Recipient

accountability portal even breaks out the types of jobs created by managerial and non-managerial positions, and whether those jobs are full-time, part-time, or temporary.[23]

Requiring Strong Job Creation and Job Quality Standards

Economic development subsidies are often sold to the public on the notion that they "pay for themselves," or are a net economic benefit to a given jurisdiction.

But if economic development deals give away vast amounts of public resources and recipients underperform, the overall economic impact of a subsidy package will be vastly reduced. Requiring subsidy recipients to pay average-or-better wages generates higher economic multipliers for every job associated with a subsidy package. In other words, higher wages lead to more spending in the local economy, and therefore, more return on investment.

The best way to ensure high economic multipliers is through market-based wage standards.[24]

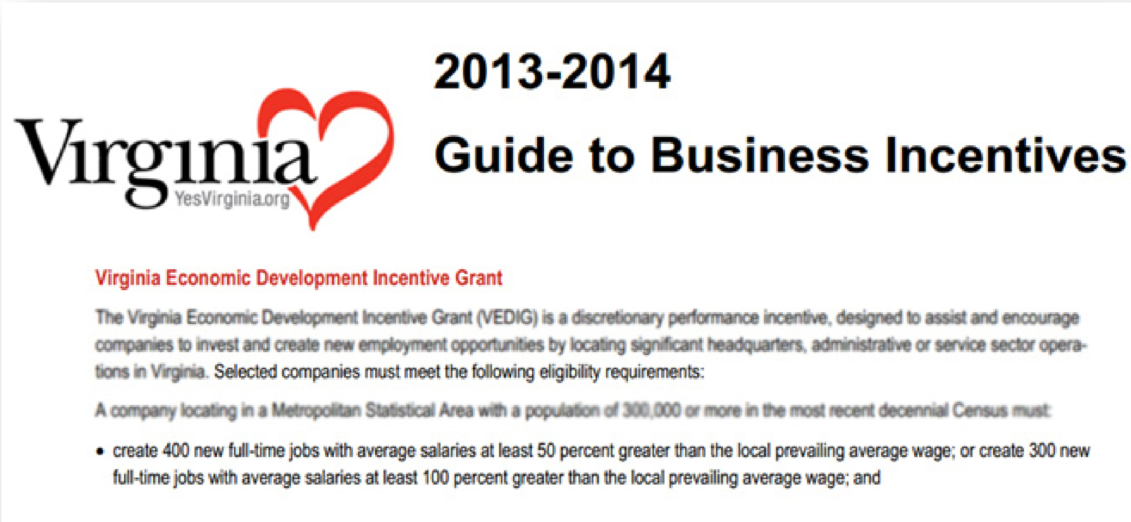
Requiring recipients to pay market-based wages means that companies receiving government subsidies must pay average-or-better wages for jobs within that particular industry. Doing so provides an upward trajectory on wages in the region. For example, within Virginia's Investment Partnership (VIP) program, recipients must meet or exceed the average hourly wage for manufacturing jobs within the city or county where the facility is receiving subsidies. [25]

Less sector-specific requirements are also utilized in a number of states. For example, West Virginia's Economic Opportunity Tax Credit requires recipients to pay the average statewide nonfarm payroll, South Carolina's readySC requires hourly wages to equal at least the average county wage, North Carolina's programs often require wages to exceed 110 percent of the county average wage, and Georgia's Quality Jobs program requires recipients to pay anywhere between 110 to 200 percent of the county average wage. [26]

Market-based wages would also enhance the District's recently recalibrated Living Wage, which covers the employees of District contractors receiving $100,000 or more from the city as well as a small subset of subsidized projects in the District because of various exemptions.

Living Wage policies alone are not enough to create middle class jobs. A 2005 analysis of the impact of Los Angeles' Living Wage ordinance by the Los Angeles Alliance for a New Economy (LAANE) found that it increased pay for an estimated 10,000 workers and that most firms adapted to the new law without eliminating jobs. However, LAANE estimates that 31 percent of those workers still lack health benefits and 44 percent rely on government assistance programs like the Earned Income Tax Credit (EITC), Medicaid, Children's Health Insurance Program (CHIP), and/or Supplemental Nutrition Assistance Program (SNAP, or food stamps). [27]

Attaching job quality standards to subsidies reduces hidden taxpayer costs like those outlined in the LAANE report. These standards include healthcare with an employer premium obligation, employer



Virginia
YesVirginia.org

2013-2014

Guide to Business Incentives

Virginia Economic Development Incentive Grant

The Virginia Economic Development Incentive Grant (VEDIG) is a discretionary performance incentive, designed to assist and encourage companies to invest and create new employment opportunities by locating significant headquarters, administrative or service sector operations in Virginia. Selected companies must meet the following eligibility requirements:

A company locating in a Metropolitan Statistical Area with a population of 300,000 or more in the most recent decennial Census must:

- create 400 new full-time jobs with average salaries at least 50 percent greater than the local prevailing average wage; or create 300 new full-time jobs with average salaries at least 100 percent greater than the local prevailing average wage; and

Example Virginia Requires Market-Based Wages

participation in a retirement plan, and paid sick leave.

For this reason, many states require subsidy recipients to provide employment benefits like healthcare.[28] Delaware's Bank Franchise Tax Credits require employers to provide healthcare coverage and contribute up to 50 percent of premium costs, while its training program requires employers to at least offer healthcare benefits. Georgia's job tax credit programs require employers to offer employees a health benefits package. In Kentucky, two primary programs require employers to provide benefits equal to 15 percent of the required wages. North Carolina programs typically require employers to provide healthcare benefits and contribute at least 50 percent of the premium costs. Maryland, New Jersey, South Carolina, and Virginia commonly require subsidy recipients to provide employees with healthcare benefits.

Scholarly research about the impact of linking wage requirements to subsidy deals also shows the benefits of market-based wages.

Dr. Timothy Bartik, a renowned economist specializing in state and local government development, has studied wage policies extensively, including their benefits and drawbacks. His analysis has found that the higher wages on subsidy projects help raise the standard of living for low-income people and outweigh any associated rise in employer costs, so long as the region's economy is healthy and growing and competing jurisdictions also make use of such standards. Dr. Bartik's research shows that tying wages on subsidy packages to local market rates is a sound way to both enhance the living standards of workers while preventing negative impacts.[29]

Recapturing Subsidies When Deals Fail to Meet Predetermined Job Creation and/or Quality Standards

Ordinary DC taxpayers and businesses benefitting from lucrative tax breaks are treated differently. Each year, more than 340,000 people file an individual income tax return to the District of Columbia. Some qualify for tax credits assuming they follow stringent rules, keep receipts, and thoroughly document their qualifying activities. A handful will be audited to ensure the veracity of the claims on their tax returns. Those found to have taken tax breaks based on false claims could be subjected to penalties if audits reveal serious violations.

In contrast, subsidy recipients are held to a lower standard. As the Form FP-161 records make all too clear, little information on outcomes is reported to the CFO's office.

Companies receiving lucrative economic development subsidies should face serious consequences for taking tax credits they do not deserve, just like ordinary taxpayers. Failing to meet job creation, job quality, or First Source thresholds should result in a predetermined recapture from subsidies already given, rescission of future subsidies not yet awarded, and/or recalibration of subsidies going forward. The District has many precedents to draw upon from other states.

In our January 2012 report on enforcement of performance standards, we found that 178 programs out of 238 surveyed include a penalty provision. [30] Programs like Maryland's MEDAAF grant and loan program use extensive clawbacks to enforce agreed-upon job creation and quality standards. Within Virginia's VIP grant program, penalties occur if a recipient fails to meet or maintain job benchmarks, payroll benchmarks, job quality standards or capital investment requirements. For a comprehensive list of how various states enforce subsidy agreements, see the appendix of *Money-Back Guarantees for Taxpayers*. [31]

Conclusion

Strengthening transparency, establishing job creation and wage standards, and enhancing enforcement on economic development deals would ensure that District taxpayers receive the highest return on investment and that companies competing for the District's limited development resources are treated even-handedly. The table on the following page summarizes improvements that could be made in the District relative to the neighboring jurisdictions of Maryland and Virginia.

Economic Development Best Practices*	District of Columbia	Maryland	Virginia
Company-specific disclosure of a subsidy award	✓	✓	✓
Show Us the Subsidized Jobs rank (January 2014)	26th	6th	18th
Maintains a searchable and downloadable database of economic development subsidies		✓	
Publishes annual report documenting outcomes		✓	✓
Discloses the status of the subsidy recipients in terms of proposed, active, completed, or terminated deal		✓	✓
Discloses enforcement actions & how recipient failed to meet performance requirement		✓	✓
Discloses the amount and type of the clawback used to enforce subsidy contract		✓	✓
Discloses the projected or promised job creation figures associated with the subsidy deal		✓	✓
Discloses the actual or audited job creation figures associated with the subsidy deal		✓	✓
Audits recipient-reported job creation and quality outcomes through unemployment insurance records, inspections, & other methods		✓	✓
Discloses the projected wages of subsidized jobs		✓	✓
Discloses the actual wages of subsidized jobs		✓	
Requires subsidized jobs to pay a minimum wage	Living Wage of $13.60 per hour**	✓ 150% of Federal Minimum Wage	
Requires subsidized jobs to pay market-based wages			✓ 85%-200% Local Average Wage
Avoids Hidden Taxpayer Costs by requiring subsidized jobs to include healthcare benefits		✓ Healthcare benefit w/ premium	✓ "Customary employment benefits"
Requires subsidized jobs to include other workplace benefits such as employer participation in employee retirement plans, paid sick leave, and vacation benefits.		✓ Retirement benefits	✓ "Customary employment benefits"
Deals include strong money-back guarantees for taxpayers (clawbacks) when outcomes fall short		✓	✓

* ✓ indicates at least two main programs looked at in our report card study incorporated this best practice.
** Various exemptions apply including land deals, retails tenants of subsidized projects, and certain training programs.

Notes

1 Julie Patel and Patrick Madden, *WAMU 88.5* "Major Campaign Donors Score Hefty City Subsidies," May 20, 2013. Online at: http://wamu.org/news/13/05/20/developers_fund_campaigns_score_subsidies

2 Deborah K. Nichols. Office of the District of Columbia Auditor. "Auditor's Review of Compliance With the Living Wage Act and First Source Act Requirements Pursuant to the Compliance Unit Establishment Act of 2008." May 18, 2010. Online at: http://dcauditor.org/sites/default/files/DCA082010.pdf

3 Julie Patel and Patrick Madden, *WAMU 88.5* "Major Campaign Donors Score Hefty City Subsidies," May 20, 2013. Online at: http://wamu.org/news/13/05/20/developers_fund_campaigns_score_subsidies

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21

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24 See Good Jobs First report *Money for Something* for a detailed discussion of market-based wages with exampleary practices across the states. Online at: http://www.goodjobsfirst.org/moneyforsomething

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