Money for Something

Job creation and job quality standards in state economic development subsidy programs

GOOD JOBS FIRST

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Money for Something:

Job Creation and Job Quality Standards in State Economic Development Subsidy Programs

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Executive Summary

At a time when unemployment remains high and states and cities are spending an estimated $70 billion a year in the name of economic development, taxpayers are right to ask if such expenditures are creating a substantial number of good jobs. An analysis of major state economic development programs finds that many subsidy programs require little if any job creation. Fewer than half provide any kind of wage standard for the workers at subsidized companies, and fewer than a fourth require any sort of healthcare coverage.

Some individual programs have exemplary safeguards, and the fact that almost every state has some programs with decent job creation or job quality standards makes it clear that these are not “business climate” impediments. Yet no state includes a high level of protection in all of its major subsidy programs, and some states are highly erratic across programs.

These findings come from a careful analysis by Good Jobs First of the most significant subsidy programs in all 50 states and the District of Columbia—238 programs in all, which together cost taxpayers more than $11 billion a year (amounts are not available for 20 of them). The programs include corporate income tax credits (for job creation, capital investment, and/or research & development), cash grants, low-cost or forgivable loans, enterprise zones, reimbursement for worker training expenses and other types of company-specific state assistance. (Subsidies that are enabled by state law but whose costs are borne by local governments, such as property tax abatements, are not among the programs examined.)

We rate each of the 238 programs on three primary criteria (and several derivative qualities): whether they require recipient companies to meet job-creation or other quantifiable performance standards; whether the subsidized companies have to pay their workers above a certain wage level; and whether the companies have to provide their workers healthcare coverage or other employee benefits.

Using these criteria, we rate each program on a scale of 0 to 100; we also offer up to 25 possible “extra credit” points for five more advanced safeguards. We average the scores of each state’s programs and rank the states and the District of Columbia by their averages.

We are concerned, as the title of our study implies, about whether states are getting something for their money, but this is not a formal cost-benefit or fiscal break-even study of the various programs.

Performance Requirements: Common but Often Weak in Their Fine Print

- Nearly all the programs (222 of 238) have some kind of quantifiable performance requirement, but only 135 relate directly to job creation, job retention or training of a certain number of workers. Of the other 87 that require some specific activity, most are based on capital investment or qualified expenditures.

- Those programs without a job-related performance requirement cost taxpayers more than $7 billion per year.

- The District of Columbia stands out negatively: four of its five major programs have no performance requirements.

- On the positive side, many programs seek to promote job security and prevent shell games: 98 of the 135 programs with job-related requirements require that new jobs remain in existence for a minimum period of time and/or that a subsidized facility remain open for a designated period, and 92 bar companies from receiving subsidies for simply moving existing jobs from another facility.

Job Quality Standards: Less Common and Often not Market-Based

- Fewer than half (98) of the 238 programs impose a wage requirement on subsidized employers, and only 53 of those wage standards are tied to labor market rates, which are a more effective benchmark for economic development than fixed amounts that can stagnate in the manner of the federal minimum wage.

- Only 11 of the wage requirements serve to raise overall wage levels by mandating rates that are somewhat above existing market averages for the geographic area or industry sector.

- Wage requirements, which can be found in 42 states, vary enormously—from just above the federal minimum wage to more than $40 an hour in certain circumstances for a handful of programs. Using the lower end for those with ranges, the average of the hourly wage requirements is $14.76; the median is $11.82.

- Those programs without any wage requirement—which together cost more than $8 billion a year—can potentially result in jobs that pay so little that workers must rely on social safety net programs such as food stamps, Medicaid, State Children's Health Insurance and the Earned Income Tax Credit. These hidden taxpayer costs may also occur from wage requirements that are sometimes set *below* market levels.

- Only 51 programs (in 28 states) require that a subsidized employer make available healthcare coverage of some kind, and only 31 of these require that the employer contribute to the cost of the premium.

Grading the States: Lots of Room for Improvement

- Based on our criteria, the states with the best average program scores are: Nevada (82), North Carolina (79), Vermont (77), Iowa (70), Maryland (68), and Oklahoma (66). The worst averages are: District of Columbia (4), Alaska (5), Wyoming (10), Oregon (13), Washington (18), Hawaii (19) and North Dakota (19). Twenty-three states score above 40, which is the average for all the states. See below for a complete list of state scores and ranks.

- There is much greater variation in the scores by individual program, with 12 scoring 100 or above (thanks to extra credit). At the same time, many programs have abysmal scores: 13 get a zero and another 80 score below 25.

- While almost every state has more than one program with job-creation and/or job quality standards, some states are quite erratic: 13 have divergences of more than 80 points between programs. The biggest divergences are in Rhode Island (98 points), Iowa (96), Kansas (93), Nebraska (93), North Carolina (93), and South Carolina (90). Clearly, states know how to build in strong safeguards but some fail to do it uniformly for all their subsidy programs.

- State economic development policies typically evolve over many years, so current administrations do not deserve all the credit or blame.

From these results we conclude that job-related performance requirements and job quality standards are both widely embraced in state economic development subsidy programs, but when the fine print is examined, many program rules turn out to be deficient. Moreover, states are not consistent in how they apply such safeguards across their full line-up of programs.

Policy Recommendations

To assist policymakers and practitioners in improving their practices, we offer the following policy recommendations:

- Every economic development program should contain job creation, job retention or training requirements.

- Each of those requirements should be strengthened by provisions barring employers from shifting existing jobs from other facilities and mandating that the jobs be kept in place for a minimum period of time—preferably for at least the duration of the subsidy (e.g., the number of years a tax break is allowed).

- Every job or training position in a subsidized facility should be subject to a wage requirement, preferably tied to dynamic labor market averages (rather than a fixed amount or a poverty rate) and structured in a way that raises wages at subsidized firms above existing market levels. Those requirements should be posted in the subsidized workplace, the way that federal minimum wage rules have to be displayed.

- Those jobs and training positions should also offer a package of employee benefits, including healthcare coverage in which the employer contributes to the cost of the premium.

- Wage and benefit requirements should be applied not only to full-time, permanent employees but also to part-time, temporary and contract workers. Job quality standards covering direct employees should not create a perverse incentive for contingent employment.

Adopting these provisions does not guarantee that any given subsidy program is a good use of taxpayer funds. Even if there are job-creation requirements, they can be set too low. Even if there are wage requirements, they can be too meager. Even if there are health benefit requirements with an employer contribution, the contribution level can be insufficient in relation to rising premium costs.

And even if all these measures are in place, they do not guarantee that a program's benefits will outweigh its costs. A subsidy could be needlessly generous; it may pay companies to do what they would have done anyway. Sometimes the only sensible course of action is to eliminate a program altogether, which is exactly what has happened in several cases in recent years. Yet as long as a program remains in existence, it should be bolstering the economy by creating a significant number of good jobs.

Note: The adoption of strong performance requirements and job quality standards must be accompanied by aggressive enforcement of those rules. In a companion report to be issued soon, Good Jobs First will grade the states on their monitoring and enforcement practices, including the use of safeguards such as clawbacks to penalize subsidy recipients that do not meet their obligations. There are indications that some states with strong job-creation and/or job quality standards may not enforce those standards rigorously.

A summary of state scores and ranks is on the following page.

State Performance and Job Quality Scoring by Rank and Alphabetically

Rank	State	Average	Grade		State	Average	Grade	Rank
1	Nevada	82	B		Alabama	34	D+	31
2	North Carolina	79	B-		Alaska	5	D-	50
3	Vermont	77	B-		Arizona	46	C-	17 (tie)
4	Iowa	70	B-		Arkansas	41	C-	23
5	Maryland	68	C+		California	23	D	42
6	Oklahoma	66	C+		Colorado	51	C	13 (tie)
7	Virginia	62	C+		Connecticut	30	D+	36
8 (tie)	Florida	58	C		Delaware	46	C-	17 (tie)
8 (tie)	Rhode Island	58	C		D.C.	4	D-	51
10	Tennessee	54	C		Florida	58	C	8 (tie)
11	Missouri	53	C		Georgia	51	C	13 (tie)
12	Wisconsin	52	C		Hawaii	19	D-	45 (tie)
13 (tie)	Colorado	51	C		Idaho	26	D	40 (tie)
13 (tie)	Georgia	51	C		Illinois	29	D	37
13 (tie)	Kansas	51	C		Indiana	36	D+	27 (tie)
16	Nebraska	48	C-		Iowa	70	B-	4
17 (tie)	Arizona	46	C-		Kansas	51	C	13 (tie)
17 (tie)	Delaware	46	C-		Kentucky	36	D+	27 (tie)
17 (tie)	Mississippi	46	C-		Louisiana	35	D+	30
20	South Carolina	45	C-		Maine	43	C-	21
21	Maine	43	C-		Maryland	68	C+	5
22	Texas	42	C-		Massachusetts	20	D	43 (tie)
23	Arkansas	41	C-		Michigan	31	D+	33 (tie)
24	New Jersey	39	D+		Minnesota	38	D+	25
25	Minnesota	38	D+		Mississippi	46	C-	17 (tie)
26	West Virginia	37	D+		Missouri	53	C	11
27 (tie)	Indiana	36	D+		Montana	31	D+	33 (tie)
27 (tie)	Kentucky	36	D+		Nebraska	48	C-	16
27 (tie)	New Hampshire	36	D+		Nevada	82	B	1
30	Louisiana	35	D+		New Hampshire	36	D+	27 (tie)
31	Alabama	34	D+		New Jersey	39	D+	24
32	Utah	32	D+		New Mexico	27	D	39
33 (tie)	Michigan	31	D+		New York	20	D	43 (tie)
33 (tie)	Montana	31	D+		North Carolina	79	B-	2
33 (tie)	Ohio	31	D+		North Dakota	19	D-	45 (tie)
36	Connecticut	30	D+		Ohio	31	D+	33 (tie)
37	Illinois	29	D		Oklahoma	66	C+	6
38	South Dakota	28	D		Oregon	13	D-	48
39	New Mexico	27	D		Pennsylvania	26	D	40 (tie)
40 (tie)	Idaho	26	D		Rhode Island	58	C	8 (tie)
40 (tie)	Pennsylvania	26	D		South Carolina	45	C-	20
42	California	23	D		South Dakota	28	D	38
43 (tie)	Massachusetts	20	D		Tennessee	54	C	10
43 (tie)	New York	20	D		Texas	42	C-	22
45 (tie)	Hawaii	19	D-		Utah	32	D+	32
45 (tie)	North Dakota	19	D-		Vermont	77	B-	3
47	Washington	18	D-		Virginia	62	C+	7
48	Oregon	13	D-		Washington	18	D-	47
49	Wyoming	10	D-		West Virginia	37	D+	26
50	Alaska	5	D-		Wisconsin	52	C	12
51	D.C.	4	D-		Wyoming	10	D-	49

Letter grading system: A+ (97 and above); A (93-96); A- (89-92); B+ (83-86); B (80-83); B- (70-79); C+ (60-69); C (50-59); C- (40-49); D+ (30-39); D (20-29); D- (1-19); F (0)

Chapter 1: Introduction and Methodology

As the federal government remains gridlocked on measures to address the country's need for rapid job creation, increased attention is being paid to state economic development policies. Site location magazines continue to issue annual "business climate" rankings, and some states (especially Texas) claim to have found solutions to the employment puzzle. At the same time, there have been recent controversies in states such as Iowa, Maine, Ohio, and Wisconsin about the effectiveness of employer tax credits.[1] In this context, there is an urgent need to evaluate the job creation policies of the states. *Money for Something* is a contribution to that effort.

Since they cannot use deficit spending or monetary policy as the basis for job stimulus, states tend to rely instead on economic development subsidies: various forms of financial assistance given to companies to encourage the growth of business activity and job creation within a state's borders. Such growth is supposed to take place through the siting of new factories, distribution centers, office complexes, research facilities, shopping malls or big-box stores.

Most states have dozens of such programs, which in the aggregate cost state and city taxpayers an estimated $70 billion each year.[2] The annual cost of some states' individual programs can run to hundreds of millions of dollars.

Among the main types of state subsidies are:

- *Corporate income tax credits* – dollar-for-dollar reductions in state taxes on corporate income linked to job creation, capital investment, research and development, film/television production or other measures. The most expensive of these are refundable credits: if a company's credits exceed its tax bill, the state pays out the difference in cash. Salable credits allow a company to sell its credits to another firm with a bigger tax liability to offset.
- *Enterprise zones* – designated geographic areas in which companies making investments are entitled to multiple tax breaks (e.g., for taxes on property and equipment).
- *Sales tax exemptions* – exemption from or reimbursement for sales taxes on the purchase of construction materials and/or equipment for new or expanded facilities.
- *Cash grants* – direct payments to companies making new investments, sometimes from "deal-closing" funds under the control of the governor's office.

- *Low-cost capital financing and loan guarantees* – low-interest loans made cheap because the interest paid is tax-free income (loans may also be guaranteed or structured as forgivable if a company meets certain targets).
- *Reimbursement for worker training expenses* – direct payments to companies for training costs or payments to community colleges or other institutions that do the training for employees of specific firms.

Some other quite costly subsidies are state-enabled and regulated, but the costs are largely borne by local governments so they are not included in our universe (except in a few cases in which they are combined with state subsidies). Examples would include property tax abatements and tax increment financing districts.

Although common practice, subsidies are highly controversial. A large body of literature from academics, state auditors, investigative journalists and non-profit research groups finds many recurring problems, such as:

- The tendency of some public officials to give subsidies to companies that do not really need them, for projects that would have happened without public assistance;
- The role of site location consultants in pushing states and localities to bid against one another, especially for big projects, routinely resulting in subsidy packages of more than $100,000 per job;
- The failure of companies to create as many jobs or pay as high a wage as they promised when seeking the subsidy;
- The creation of jobs that are of poor quality as measured by wages, benefits and opportunities for advancement and which can leave the families of employees dependent on social safety-net programs;
- The competitive disadvantage or tax burden shift imposed on existing companies when subsidies are given to newly arriving firms; and
- Cutbacks in vital public services such as education resulting from revenue shortfalls linked to the tax breaks given to new companies, whose arrival can increase the demand for such services.

For years, a movement for economic development accountability has been pushing to reform the subsidy system in many states. Among these reforms are requirements that subsidy recipients create jobs with decent pay rates and adequate health benefits; the imposition of repayment requirements—or clawbacks—on recipients that fail to meet

job creation or investment requirements; the targeting of subsidies to areas with true need for revitalization; and the denial of subsidies for projects in urban locations without access to public transit. The movement has also pushed for company-specific disclosure of data on which companies are being awarded subsidies, the value of those awards, the location of subsidized facilities, and performance outcomes, especially those relating to jobs and wages.

Since the founding of Good Jobs First in 1998, we have been deeply involved in this subsidy accountability movement, both in promoting reforms and in assessing their progress. *Money for Something* builds on two of our previous reports: *The Policy Shift to Good Jobs* (last revised in November 2003) and *Show Us the Subsidies* (December 2010).[3]

The objective of *Policy Shift* was to document the growing number of programs that contain wage and benefit requirements. In 2003 the tally came to 116 state programs and 49 standards that applied to local subsidies, often covering multiple programs. Altogether, that amounted to 165 job quality precedents in 89 jurisdictions—43 states, 41 cities and 5 counties.

In *Show Us the Subsidies*, we set out to document online disclosure of company-specific recipient data, but we defined the scope of the research differently. Whereas in *Policy Shift* we included precedents from any state or local economic development subsidy program whatsoever, in *Show Us the Subsidies* we focused on what we deemed to be the most significant state-level programs in each state and the District of Columbia, based on factors such as cost and frequency of use. We also included programs that had been particularly controversial, even if their cost had recently declined. For most states we chose five programs, but for ten states we could find only four of significance. (See *Show Us the Subsidies* for more details on how we made our choices.) We ended up with a list of 245 programs.

Program Universe and Rating Methodology

Our intention in *Money for Something* was to examine the same universe of 245 programs in terms of job-creation and other performance requirements as well as job quality standards. However, since *Show Us the Subsidies* was published, a number of the programs in our sample had been terminated (three in Arizona alone). After eliminating these and making a few other adjustments, we were left with a new universe of 238 programs, which together cost taxpayers more than $11 billion a year (amounts are not available for 20 of the programs).[4]

We gathered our information on each program's performance requirements and job quality standards by, first, carefully reading its enabling legislation and the state regulations governing its operation. We also consulted other material on state agency websites. Once we had absorbed all that information, we then contacted the state agency overseeing the program to confirm our interpretation of what we had read and to request additional details. All the information we collected was entered into a Microsoft Access database.

Based on our long experience in analyzing subsidy programs, we designed a set of criteria that we think are the best measures of efficacy and accountability. The main categories are:

- The presence of a performance standard relating to job creation, job retention, training, investment and other factors that contribute to economic growth. We put special emphasis on the job-related measures.

- Wage requirements, with emphasis on dynamic pay provisions that track labor market rates.

- Employee benefit requirements, with emphasis on provisions that oblige a subsidized employer to provide healthcare coverage and contribute to the cost of the premium.

We assigned scores to each of the three primary criteria (and several derivative ones) and rated each of the programs on a scale of 0 to 100, with up to 25 points of extra credit possible for five less common but desirable features. The following section of this report contains more details on our scoring system and summarizes our overall findings. Scoring details for each state can be found in the online state appendices at www.goodjobsfirst.org/moneyforsomething.

Note: The adoption of strong performance requirements and job quality standards must be accompanied by aggressive enforcement of those rules. In a second report to be issued soon, Good Jobs First will evaluate the states on their monitoring and enforcement practices, including the use of techniques such as clawbacks to penalize subsidy recipients that do not meet their obligations. There are indications that some states with strong job-creation and/or job quality standards may not enforce those standards rigorously.

Chapter 2: Findings

State economic development subsidy programs, in nearly all cases, contain provisions to ensure that companies generate some new business activity in exchange for taxpayer assistance. Few programs cling to the old practice—exposed by the spate of plant closing disputes and lawsuits in the late 1980s and early 1990s—of subsidizing companies with no strings attached.

Yet saying that a state requires performance can be falsely reassuring. In this study we found many programs with significant loopholes in their safeguards. If a company can simply move an existing job and call it "new," that's not job creation. If the workers at a subsidized company get such low pay and benefits that they must rely on Medicaid and food stamps, few would consider that "economic development."

Unlike our previous study *Show Us the Subsidies*, which found that 13 states and the District of Columbia provided no online recipient disclosure data, *Money for Something* finds that every state has at least some performance requirements relating to job creation or job quality. However, the coverage of those requirements varies greatly, and some states have the bare minimum. Eleven states and the District of Columbia still have one or more major program with no corporate quid pro quo. In the District that applies to four of its five major programs, and in Alaska two of four.

As in *Show Us the Subsidies*, we developed a scoring system to rate the most important subsidy programs in each state and the District. We based our evaluation on three primary factors: the inclusion of quantifiable performance measures such as job creation requirements, rules relating to the minimum wage rates that must be paid to workers at subsidized facilities, and requirements relating to the employee benefits that must be provided to those workers.

We find that 222 of the 238 programs in our universe have some kind of quantifiable performance measure, but only 106 have a wage or health benefit requirement.

Digging into the fine print, we rate each of the 238 programs on a scale of 0 to 100. We also award up to 25 extra credit points in five more advanced features. See Appendix 1 for a sample scoring sheet.

We then average the program scores in each state (and the District) and rank them according to those averages. Under this system, the average state score is an unimpressive 40; the median is 37.

Top- and Bottom-Rated States

The top state averages are: Nevada (82), North Carolina (79), Vermont (77), Iowa (70), Maryland (68), and Oklahoma (66).

The bottom state averages are: District of Columbia (4), Alaska (5), Wyoming (10), Oregon (13), Washington (18), Hawaii (19) and North Dakota (19). Below is a table with each state's score and rank.

As in *Show Us the Subsidies*, we also provide letter grades, but in a way that diverges from the usual system used in schools. We limit the failing grade of F to states with no performance measures at all (none, it turns out), and we stretch out the range for the lower passing grades (see the note at the bottom of the table for details). Even with this generous grading system, no state gets better than a B. Nevada is the only state to receive that grade, while North Carolina, Iowa and Vermont get a B-minus. Three states get a C-plus; eight get a C; eight get a C-minus; 13 get a D-plus; eight get a D; and seven (including the District of Columbia) get a D-minus.

State policies have evolved over many years in most cases, so current administrations do not deserve all the credit or blame.

Leading the Pack

There is no mystery about how Nevada wins the top score. All four of its programs in our sample have job-related performance standards and requirements that subsidized facilities remain in operation for a minimum period; three of the four have wage standards linked to market rates and requirements that subsidized employers provide healthcare coverage and pay a portion of the premium. Nevada's programs receive little in the way of extra credit points.

In second-place North Carolina, four of the five programs have job-related performance requirements, requirements that employers do not shift workers from existing facilities and that they keep subsidized facilities in operation for a minimum period, wage standards that for two programs are linked to market rates, and requirements that subsidized employers provide healthcare coverage and pay a portion of the premium. It also benefited little from extra credit. North Carolina's low-scoring film tax credit program cost it first place.

Third-place Vermont has job-related performance requirements for all five of its programs, along with market-based wage requirements for two and healthcare requirements with an employer premium contribution for three. Two of its programs receive extra credit for requiring other forms of benefits.

The following table summarizes the averages, grades and ranks:

State Performance and Job Quality Scoring by Rank and Alphabetically

Rank	State	Average	Grade		State	Average	Grade	Rank
1	Nevada	82	B		Alabama	34	D+	31
2	North Carolina	79	B-		Alaska	5	D-	50
3	Vermont	77	B-		Arizona	46	C-	17 (tie)
4	Iowa	70	B-		Arkansas	41	C-	23
5	Maryland	68	C+		California	23	D	42
6	Oklahoma	66	C+		Colorado	51	C	13 (tie)
7	Virginia	62	C+		Connecticut	30	D+	36
8 (tie)	Florida	58	C		Delaware	46	C-	17 (tie)
8 (tie)	Rhode Island	58	C		D.C.	4	D-	51
10	Tennessee	54	C		Florida	58	C	8 (tie)
11	Missouri	53	C		Georgia	51	C	13 (tie)
12	Wisconsin	52	C		Hawaii	19	D-	45 (tie)
13 (tie)	Colorado	51	C		Idaho	26	D	40 (tie)
13 (tie)	Georgia	51	C		Illinois	29	D	37
13 (tie)	Kansas	51	C		Indiana	36	D+	27 (tie)
16	Nebraska	48	C-		Iowa	70	B-	4
17 (tie)	Arizona	46	C-		Kansas	51	C	13 (tie)
17 (tie)	Delaware	46	C-		Kentucky	36	D+	27 (tie)
17 (tie)	Mississippi	46	C-		Louisiana	35	D+	30
20	South Carolina	45	C-		Maine	43	C-	21
21	Maine	43	C-		Maryland	68	C+	5
22	Texas	42	C-		Massachusetts	20	D	43 (tie)
23	Arkansas	41	C-		Michigan	31	D+	33 (tie)
24	New Jersey	39	D+		Minnesota	38	D+	25
25	Minnesota	38	D+		Mississippi	46	C-	17 (tie)
26	West Virginia	37	D+		Missouri	53	C	11
27 (tie)	Indiana	36	D+		Montana	31	D+	33 (tie)
27 (tie)	Kentucky	36	D+		Nebraska	48	C-	16
27 (tie)	New Hampshire	36	D+		Nevada	82	B	1
30	Louisiana	35	D+		New Hampshire	36	D+	27 (tie)
31	Alabama	34	D+		New Jersey	39	D+	24
32	Utah	32	D+		New Mexico	27	D	39
33 (tie)	Michigan	31	D+		New York	20	D	43 (tie)
33 (tie)	Montana	31	D+		North Carolina	79	B-	2
33 (tie)	Ohio	31	D+		North Dakota	19	D-	45 (tie)
36	Connecticut	30	D+		Ohio	31	D+	33 (tie)
37	Illinois	29	D		Oklahoma	66	C+	6
38	South Dakota	28	D		Oregon	13	D-	48
39	New Mexico	27	D		Pennsylvania	26	D	40 (tie)
40 (tie)	Idaho	26	D		Rhode Island	58	C	8 (tie)
40 (tie)	Pennsylvania	26	D		South Carolina	45	C-	20
42	California	23	D		South Dakota	28	D	38
43 (tie)	Massachusetts	20	D		Tennessee	54	C	10
43 (tie)	New York	20	D		Texas	42	C-	22
45 (tie)	Hawaii	19	D-		Utah	32	D+	32
45 (tie)	North Dakota	19	D-		Vermont	77	B-	3
47	Washington	18	D-		Virginia	62	C+	7
48	Oregon	13	D-		Washington	18	D-	47
49	Wyoming	10	D-		West Virginia	37	D+	26
50	Alaska	5	D-		Wisconsin	52	C	12
51	D.C.	4	D-		Wyoming	10	D-	49

Letter grading system: A+ (97 and above); A (93-96); A- (89-92); B+ (83-86); B (80-83); B- (70-79); C+ (60-69); C (50-59); C- (40-49); D+ (30-39); D (20-29); D- (1-19); F (0)

Looking at programs rather than states, the average score is also 40, but there is much more variation than in the state averages. Twelve programs score 100 or better (thanks to extra credit points). Here are the top-scoring programs:

Table: Top Scoring State Programs

State	Program	Score
OK	21st Century Quality Jobs	109
RI	Corporate Income Tax Rate Reduction for Job Creation	108
IA	High Quality Job Creation Program	106
KS	Promoting Employment Across Kansas (PEAK) Program	103
NC	William S. Lee Quality Jobs and Business Expansion Act (Article 3A)	103
NE	Customized Job Training	103
VT	Vermont Employment Growth Incentive (VEGI)	103
NC	One North Carolina Fund	100
SC	Job Development Credits	100
TX	Texas Economic Development Act (Ch. 313)	100
WV	Economic Opportunity Tax Credit	100
VT	Economic Advancement Tax Incentives (EATI)	100

A total of 32 programs have scores higher than the highest state average (Nevada's 82), and 80 score above 50. At the same time, there are many programs with very low scores: 13 with zero and another 80 with scores below 25.

As in our online disclosure study *Show Us the Subsidies*, we again find a great deal of unevenness within individual states. Among the states listed in the preceding table of highest-scoring programs, all but Oklahoma and Vermont also have a program scored below 20.

Thirteen states have divergences of more than 80 points between programs. The biggest divergences are in Rhode Island (98 points), Iowa (96), Kansas (93), Nebraska (93), North Carolina (93), and South Carolina (90). At the other end is Wyoming, with no difference at all among its programs: they all score a dismal 10.

States that adopt good performance requirements for some of their programs often inexplicably fail to apply those standards to the rest of their offerings. The broad (if uneven) presence of specific rules in nearly every state makes it clear that quid pro quos are not seen as a "business climate" deterrent, but few states apply safeguards in a uniform way across programs.

Disclosure vs. Performance Standards

Performance and job quality standards are just as important as disclosure as measures of accountability in economic development subsidy programs. Yet states do not necessarily give these safeguards equal weight. As shown in the accompanying tables, the line-up of top-scoring states in this report bears little resemblance to the winners in *Show Us the Subsidies.* The only state that makes both lists is North Carolina.

States with Best Performance Standards - vs. - States with Best Subsidy Disclosure

Money for Something Rank	*State*	*Average Score*
1	Nevada	82
2	North Carolina	79
3	Vermont	77
4	Iowa	70
5	Maryland	68
6	Oklahoma	66
7	Virginia	62
8 (tie)	Florida	58
8 (tie)	Rhode Island	58
10	Tennessee	54

Show Us the Subsidies Rank	*State*	*Average Score*
1	Illinois	82
2	Wisconsin	71
3	North Carolina	69
4	Ohio	66
5	Missouri	56
6	Connecticut	48
7	Michigan	47
8	Indiana	46
9	Kentucky	45
10 (tie)	Louisiana	43
10 (tie)	Pennsylvania	43
10 (tie)	Texas	43

Results by Scoring Component

Basic Performance Requirements

In today's depressed economy, the most important economic development requirement is job creation. Increasing employment not only expands business activity but also (hopefully) raises living standards and generates a net increase in tax revenue for state and local governments. We thus award the most points in this category—15—to those programs that either stipulate a minimum number of jobs must be created or by linking the size of the subsidy to the number of new positions.

In some situations, subsidies are awarded not to create new jobs but to induce a company to keep its headcount at the existing level. Such retention subsidies can be abused by companies engaging in job blackmail, but they can also deter layoffs. We thus give the same 15 points when there is a job retention requirement. This is also a

practical matter, since numerous programs have requirements that combine job creation and retention standards.

Since training is often a stepping stone to additional job creation, we also give the maximum 15 points to programs that require that the recipient company train a certain number of workers.

We give fewer points—10—to those programs that have other kinds of performance requirements that provide an economic benefit. These include the obligation to invest a certain amount of money in a facility or the obligation to make qualified expenditures (such as research & development spending, spending by a film production company or spending on training without a requirement relating to the number of workers trained).

We give credit in this category for three types of standards:

- those that set specific requirements to qualify for subsidies in the first place;
- those in which meeting benchmarks determines the amount of the subsidy (typically called performance-based); and
- those that provide up-front money but apply penalties later in cases where the company fails to meet specific targets.

Of the 238 programs in our sample, 222 have some sort of performance requirement. Of these, 135 receive the maximum 15 points for requiring job creation, job retention or the training of a certain number of workers. Many of these programs also have requirements relating to investment and/or qualified expenditures. It is worth noting that among the programs with job-related requirements are some—such as New Mexico's Manufacturer's Investment Tax Credit—whose primary purpose is stimulating investment.

In our *Show Us the Subsidies* report last year, we found that only 34 programs provided online disclosure of actual outcomes: i.e., job creation, retention or training numbers. That means that around 100 other programs have job-related standards but do not make it easy for the public to monitor whether companies are fulfilling those obligations.

Eighty-seven programs receive the lower amount of 10 points for having performance requirements lacking direct job provisions. These include 19 with a requirement relating to investment only, 62 with only a requirement relating to qualified

expenditures, and four with both. Those programs *without* a job-related requirement cost taxpayers more than $7 billion a year.

Sixteen programs (from a dozen states) have no quantifiable requirements at all. The lack of performance measures is most pronounced in the District of Columbia, where four of the five programs fall into this category, and in Alaska with two. Based on the most recent available data, these 16 programs cost taxpayers a total of more than $1.3 billion (amounts are not available for three of the programs).

Table: Programs Without Quantifiable Requirements

State	*Program*	*Annual Cost*
AK	Commercial Fishing Revolving Loan Program	$4,120,000
AK	Development Finance Program	$364,000,000
DC	Discretionary Property Tax Breaks	$15,255,151
DC	Discretionary Sales and Use Tax Exemptions and Abatements	not available
DC	Payments-In-Lieu-Of-Taxes (PILOTs)	$11,351,564
DC	Tax Increment Financing (TIF)	$24,328,106
ME	Business Equipment Tax Reimbursement Program	$19,431,982
MT	Oil and Natural Gas Production Tax Exemptions	$139,586,214
ND	Income Tax Exemption for New or Expanding Businesses	$2,000,000
NJ	Economic Redevelopment and Growth (ERG) Grant Program	$328,700,000
NM	Tax Increment Development Districts	not available
NY	Empire Zone Program (being phased out)	$423,000,000
OH	Community Reinvestment Area (CRA) Program	not available
PA	Keystone Opportunity Zone (KOZ) Program	$18,700,000
SD	Pooled Bond Program	$7,605,000
UT	Industrial Assistance Fund (Economic Opportunity)	$125,000

Specific requirements in both the job and non-job categories vary greatly among programs and sometimes also among different types of recipients within a single program. It is unfortunately the case that numerous programs set their job benchmarks extremely low, often requiring only one new job. Others do the same for requirements relating to investment or qualified expenditures.

On the other hand, some programs set impressive job-creation and investment requirements. For example, Georgia's Mega Project Tax Credit requires 1,800 jobs and an investment of $450 million (or a payroll of $150 million).

Given these variations both among and within programs, it was not practical to further refine our scoring system based on the details of each performance requirement. We

recognize that this may unduly reward some programs with low bars, but our main objective is to distinguish between those programs that impose some sort of performance requirement and those that award money for nothing.

See Appendix 3 below for a summary of performance requirements for all 238 programs we examined.

Maintenance of Effort

Job creation and other performance standards pack more punch if the recipient company has to sustain the results over a period of time. Subsidy spending is wasted if hiring gives way to layoffs or if a facility receiving investment is soon shut down. We thus give 10 additional points to programs that require subsidized jobs to remain in existence for a minimum length of time or require a subsidized facility to remain in operation for a minimum period.

As with general performance requirements, the details of these maintenance-of-effort provisions vary greatly and thus were not factored into our scoring system. Among the best programs in this regard are the Texas Economic Development Act (Ch. 313), which requires that facilities be kept open for 13 years, and the Vermont Employment Growth Incentive, which requires that recipients maintain employment levels for nine years.

Of the 222 programs with performance requirements, 96 require that jobs remain in existence for a minimum period of time, while 46 require that a subsidized facility be kept open for a designated period. Twenty-six programs have both requirements.

Safeguards Against Intrastate Shell Games

A state will receive no net economic benefit from its job-creation subsidies if a recipient company simply shifts existing jobs from one facility in the state to another newly subsidized location. We thus award 10 points to those programs that have a prohibition against job shifting, which is usually accomplished by stating that the subsidized jobs have to be new to the state.

We found 96 programs that have provisions barring subsidies for job-shifting (including four that have no job-related performance requirement). However, states seem to care only about job-shifting within their borders: all but two of the 96 programs refer exclusively to intrastate movements. This is sad evidence of the federal

government's failure to deter the zero-sum "economic war among the states," a phrase coined more than 30 years ago. Only Delaware's Blue Collar Jobs Tax Credit Program and New Hampshire's Community Development Investment Program (Investment Tax Credit) have provisions written in a way that could bar an interstate job shift.

In fact, a few programs are explicitly designed to encourage interstate job piracy. We found three subsidies that are awarded *only* for jobs arriving from another state: Georgia's EDGE (Economic Development, Growth and Expansion) Fund Program, Kansas's Promoting Employment Across Kansas (PEAK) Program, and Tennessee's Headquarters Tax Credit.

Wage Standards

It is not enough simply to require subsidy recipients to create jobs. The jobs must pay enough to support decent living standards, create economic ripple effects, and generate a stronger tax base. If subsidy program rules allow companies to pay poverty wages and no benefits, taxpayers incur hidden costs in the form of social safety-net expenditures such as Medicaid, State Children's Health Insurance Programs, food stamps, and (state and federal) Earned Income Tax Credits.

Wage requirements take two main forms when applied to subsidies. Programs either mandate a flat amount as a minimum, or they link the requirement to some market measure of pay rates.[5] The latter is definitely preferable. Like the federal minimum wage, the real value of flat rates decline with inflation unless they are updated by legislators, which is far from guaranteed. Moreover, some are meaningless. For example, an apparently out-of-date web document about Delaware's Blue Collar Training Grant Program says it has a wage requirement of "$7+ an hour plus benefits," which is now below the federal minimum wage. Since 1980, Oklahoma's Investment/New Jobs Tax Credit has had an annual wage floor of only $7,000, which is now the equivalent of less than half the federal minimum wage. In theory, a flat rate could be set higher than market levels but this is usually not the case.

We award 35 points for wage requirements that are tied to market measures such as area median income or average wages, whether for the locality, the state or for an industry sector.[6] We award 25 points for wage requirements tied to measures that do not change automatically, including the federal minimum wage or the state minimum wage. Although the federal poverty line does get adjusted, it is not pegged to labor market rates, so we also award 25 points for wage rates tied to it.

On the other hand, we give the full 35 points to wage standards based on a state minimum wage where that minimum rate is indexed to the cost of living. This applies to two programs in our universe: the Vermont Employment Growth Incentive and the Vermont Training Program.

We found a total of 98 programs (fewer than 50 percent of our universe) with a wage requirement of some kind, with 42 states represented. The 140 programs *without* a wage requirement cost taxpayers more than $8 billion—and that is only the direct cost without hidden safety-net spending.

Of the 98 with such a requirement, 53 receive 35 points for having a standard that automatically adjusts. In most cases (39) the rate is linked to a local or state average wage; in 18 cases the formula is based on the average wage in a specific sector. Some use more than one type of requirement but in different circumstances. Wage requirements pegged to county pay averages, for instance, can have dozens of rates. There are also programs that limit wage requirements to certain categories of companies or certain geographic areas while imposing none on other categories or areas. Looking at the extent of the requirements, we evaluated each of these programs individually and made a judgment call on whether to award it points for having a wage standard. See below for a discussion of our extra-credit scoring for wage standards that exceed market averages.

Forty-five programs receive 25 points for having a wage requirement that does not automatically adjust according to market rates or inflation. These include 15 in which the program sets a flat rate, 18 in which the standard is tied to the federal minimum wage, 3 in which the standard is tied to the federal poverty level, 5 that are tied to an un-indexed state minimum wage, and 7 others.[7] The Delaware and Oklahoma programs cited above receive no points in this category because their “standards” are meaningless.

In our 2010 report *Show Us the Subsidies*, we found only 15 programs providing online disclosure of the actual wage rates being paid to employees of subsidized companies. Thus, more than 80 programs have wage standards but do not enable taxpayers to readily monitor compliance.

The absolute values of the wage standards vary enormously, from just above the federal minimum wage to more than $40 an hour, though the higher levels often apply only in certain industry sectors or geographic areas. Using the lower end for those with ranges, the average of the hourly wage requirements is $14.76; the median is $11.82.

The following table lists the programs with the highest hourly wage requirements, ranked by the lower end for those with ranges. For a full list, including more details, see Appendix 4 below.

Table: Programs with Highest Hourly Wage Requirements

State	Program	Basis	Required Hourly Rate
OK	21st Century Quality Jobs	300% of average county wage	$36.39 to $45.00
VA	Virginia Economic Development Incentive Grant (VEDIG)	150-200% of average area wages	$34.50 to $ 46.00
KS	High Performance Incentive Program (HPIP)	150% of state average wage	$28.08
TN	Headquarters Tax Credit	150% of state average wage	$27.64
TN	Sales and Use Tax Credit for Qualified Facility to Support an Emerging Industry	150% of state average wage	$27.64
NC	Job Development Investment Grants (JDIG)	Average of targets in individual agreements in 2010	$26.55
FL	Capital Investment Tax Credit	130% to 200% of average private sector wage in area (higher figure is for headquarters projects)	$25.46 to $39.16
VA	Virginia Investment Partnership (VIP) & Major Eligible Employer Grant (MEE)	200% of local area wage rate (MEE); average area manufacturing wage (VIP)	$24.83 to $46.00
CO	Job Growth Incentive Tax Credit	110% of the average county wage	$24.73
FL	Quick Action Closing Fund	125% of the state private sector average wage	$24.48
CA	Employment Training Panel	State average hourly wage	$24.40
FL	Qualified Target Industry Tax Refund	115% of the state or county average private sector wage	$22.52
CO	Strategic Fund	100% to 110% of county average wage	$22.48 to $24.73
TX	Texas Economic Development Act (Ch. 313)	110% of the county average wage in manufacturing	$22.33

Healthcare Benefits

Since most U.S. workers depend on their employers for healthcare coverage, the job quality standards attached to subsidies should also include a requirement to provide medical insurance. The problem is that the word “provide” can have many different meanings. Many low-wage employers, especially in the retail sector, do nothing more than create bare-bones group plans that workers can participate in at their own expense. Many of those workers either cannot afford to participate or regard the coverage as inadequate in relation to the cost.

Therefore, we award the maximum of 30 points in this category only to those subsidy programs that require recipient companies to provide their workers access to

healthcare coverage *and* require that the employer contribute to the cost of the premium. Since access to group coverage without an employer contribution is better than nothing at all, we award 10 points in those cases.

Of the 238 programs we examined, a total of only 51—fewer than one in four—require that the company make available healthcare coverage of some kind, with 28 states represented. Of those, only 31 receive our maximum score by requiring that the employer contribute to the cost of the premium. Four of those programs are in North Carolina, which attaches the requirement to all but one of its major subsidy programs. Here is a list of the programs with an employer healthcare premium obligation:

Table: Programs with Employer Healthcare Premium Obligation

State	*Program*	*Employer Premium Obligation*
AZ	Quality Jobs Tax Credit Program	65% of premium
DE	Bank Franchise Tax Credits	50% of premium
IA	Enterprise Zone (Business Only)	80% of premium for employee-only coverage; 50% for family coverage
IA	High Quality Job Creation Program	80% of premium for employee-only coverage; 50% for family coverage
KS	Promoting Employment Across Kansas (PEAK) Program	50% of premium
KY	Kentucky Business Investment (KBI) Program	15% of required wage must go toward benefit costs
LA	Quality Jobs Program	at least $1.25 an hour
MD	Maryland Economic Development Assistance Authority Fund, MEDAAF 1 & 2, Significant Strategic Economic Development Opportunities & Local Economic Development Opportunities	Employer must contribute but minimum amount is not specified
MD	Sunny Day Fund	Employer must contribute but minimum amount is not specified
MO	Quality Jobs Program	50% of premium
NC	Job Development Investment Grants (JDIG)	50% of premium
NC	One North Carolina Fund	50% of premium
NC	Tax Credits for New and Expanding Businesses (Article 3J Credits)	50% of premium
NC	William S. Lee Quality Jobs and Business Expansion Act (Article 3A)	50% of premium
NE	Customized Job Training	15% of hourly wage
NM	Industrial Revenue Bonds	50% of premium (in certain geographic areas only)
NV	Modified Business Tax Abatement	25% of premium
NV	Personal Property Tax Abatement	25% of premium
NV	Sales and Use Tax Abatement	25% of premium
OK	21st Century Quality Jobs	50% of premium
OK	Quality Jobs	50% of premium
OK	Training for Industry	50% of premium
RI	Corporate Income Tax Rate Reduction for Job Creation	Employer must contribute but minimum amount is not specified
SC	Job Development Credits	15% of premium
TX	Texas Economic Development Act (Ch. 313)	80% of premium
VT	Economic Advancement Tax Incentives (EATI)	50% of premium
VT	Vermont Employment Growth Incentive (VEGI)	Typically at least 60% of premium
VT	Vermont Training Program	50% of premium
WI	Customized Labor Training Fund	Typically 50% of premium
WI	Economic Development Tax Credit Program	50% of premium
WV	Economic Opportunity Tax Credit	Recipients are generally required to contribute to premium costs but no minimum is mandated

Extra Credit 1: Wage Standards that Help Raise Market Levels

As we noted above, the wage standards included in subsidy programs take a wide variety of forms. Although our main concern is with the existence of standards that bar recipients from creating low-paying jobs, recipients should be expected to do more than that. Ideally, they should not only match labor market wage averages but *exceed* them, thereby raising living standards.

We award 6 extra credit points to programs that achieve this by setting a wage floor that is at least 5 percent higher than a market rate, which means that employers must pay at least 105 percent of the average wage for the state, the local area or the industry sector.[8] We also award the extra points to programs with flat-rate requirements (including a multiple of the state or federal minimum wage) if their value is equal to at least 105 percent of the current average wage for the state.

Only 11 of the 98 programs with wage standards qualify for extra credit. They are the following:

Table: Programs Receiving Extra Credit for Wage Standards

State	*Program*	*Wage Standard*
AR	Targeted Business Incentives	Depending on where the business is located, 150% to 180% of the lesser of the state or county average hourly wage.
CO	Job Growth Incentive Tax Credit	Average wage rates at the recipient company must equal at least 110% of average county wage.
FL	Qualified Target Industry Tax Refund	115% of the state or county average private sector wage (waived for projects in a rural county, a brownfield, or an enterprise zone); an additional bonus applies if a company pays at least 150% or 200% of the average area wage.
FL	Quick Action Closing Fund	125% of the state private sector average wage.
GA	Quality Jobs Tax Credit	To receive a tax credit of $2,500/job, an employer must pay at least 110% of the average county weekly wage; to receive $5,000 credit/job it must pay at least 200%.
IA	High Quality Job Creation Program	New jobs must pay at least 130% of the county or regional average wage by project completion.
IN	Economic Development for a Growing Economy (EDGE) Tax Credits	Except in rare instances, 105% of average compensation for workers at other companies with the same NAICS industry code.
OK	21st Century Quality Jobs	Annualized wages must be at least 300% of the Oklahoma County average wage or 300% of the average county wage where the project is located, whichever is lower.
TN	Headquarters Tax Credit	150% of Tennessee's average occupational wage.
TN	Sales and Use Tax Credit for Qualified Facility to Support an Emerging Industry	150% of Tennessee's average occupational wage.
VA	Virginia Economic Development Incentive Grant (VEDIG)	Varies depending on the type of project but generally 50-100% above the average wage in the area.

Extra Credit 2: Other Types of Employee Benefits

Wage and healthcare standards are not the only ways to make sure that subsidies are creating good jobs. Requiring subsidized employers to provide other kinds of employee benefits also enhance job quality. These include retirement benefits, paid vacation and sick days, and family/parental leave.

We award 5 extra credit points to programs that require any one of these additional benefits, and 10 points if more than one is mandated.

Of the 238 programs we examined, only 14 require any non-healthcare benefits. Just three require more than one type:

- Vermont's Economic Advancement Tax Incentives (retirement benefit, paid sick days and vacation time)
- Vermont Training Program (must have three of the following: retirement, dental, paid vacation and holidays, child care, parental leave benefits)
- Wisconsin's Economic Development Tax Credit Program (paid sick days and vacation time)

Here is a summary of the benefits required by the other 11 programs:

Retirement Benefits
DE: Blue Collar Training Grant Program
MD: Maryland Economic Development Assistance Authority Fund, MEDAAF 1 & 2
MD: One Maryland Tax Credit
MD: Sunny Day Fund
ME: Employment TIF
ME: Pine Tree Development Zones
RI: Corporate Income Tax Rate Reduction for Job Creation
VA: Virginia Investment Partnership & Major Eligible Employer Grant

Vacation Time
RI: Enterprise Zone Tax Credits
VA: Governor's Opportunity Fund
VA: Virginia Economic Development Incentive Grant

Extra Credit 3: Applying Wage and Benefit Standards to Contingent Workers

Subsidy programs that seek to generate new jobs tend to focus on full-time, permanent positions. Some, however, also take into account part-time and temporary positions.

Because of the growth of the size of the contingent workforce, this an important safeguard. Moreover, it would be a perverse and unintended consequence if job quality standards for permanent employees created an incentive for companies to hire more contingent workers.

We give 3 extra credit points to those programs that apply wage and/or benefit standards to part-timers and/or temps. We do the same for programs that apply those standards to employees of contractors and/or tenants at subsidized projects.

Only 24 programs apply a wage and/or benefit requirement to at least one of these worker categories. Of these, 18 apply a wage standard to part-timers, and two do the same with benefits. Three programs apply a wage rule to temps, and 8 do the same for contract workers. Three programs apply a benefits requirement to contract workers. The following table summarizes these results:

Table: Programs that Apply Job Quality Standards to Contingent Workers

State	*Program*	*Contingent Workers*
AR	Arkansas Advantage Income Tax Credit	Wage: PT/Temp/Contractor
AR	InvestArk Sales and Use Tax Credits	Wage: PT/Temp/Contractor
AR	TaxBack Sales and Use Tax Refund	Wage: PT/Temp/Contractor
AZ	Arizona Job Training Program	Wage: PT
CO	Colorado FIRST/Existing Industry Training Program	Wage: PT
HI	Enterprise Zones	Benefit: Contractors
ID	Workforce Development Training Fund Program	Wage: PT
KS	High Performance Incentive Program (HPIP)	Wage: PT
KS	Promoting Employment Across Kansas (PEAK) Program	Wage: PT
MN	Minnesota Investment Fund	Wage: PT
MT	Primary Sector Workforce Training Grant	Wage: PT
NC	William S. Lee Quality Jobs and Business Expansion Act	Wage: PT
NE	Customized Job Training	Wage: PT; Benefit: PT
NE	Nebraska Advantage	Wage: PT
NJ	Business Employment Incentive Program (BEIP)	Wage: Contractors
NJ	Economic Redevelopment and Growth (ERG) Grant Program	Wage: Contractors
NV	Modified Business Tax Abatement	Wage: PT
NY	Empire Zone Program	Wage: PT
RI	Corporate Income Tax Rate Reduction for Job Creation	Wage: PT; Benefit: PT
RI	Manufacturing and High Performance Manufacturing Investment Tax Credits	Wage: PT
VA	Governor's Opportunity Fund (GOF)	Wage: Contractors; Benefit: Contractors
VA	Virginia Economic Development Incentive Grant (VEDIG)	Wage: Contractors
VT	VT Economic Development Authority loans	Wage: PT
WI	Customized Labor Training Fund	Wage: Contractors; Benefit: Contractors

Extra Credit 4: Geographic Hiring Preferences

When public money is used to provide economic development subsidies to companies, taxpayers who bear the cost reasonably expect to share in the economic benefits. One key way to do this is to require or encourage companies to hire residents from the jurisdiction awarding the tax break, grant or other type of assistance.

When advocacy coalitions have negotiated project-specific community benefit agreements with developers receiving local subsidies, they have often sought a commitment to local hiring. For the state subsidy programs examined in this report, geographic hiring preferences take different forms. Some programs that limit their subsidies to designated enterprise zones or comparable districts may require companies to hire workers living in those zones. Alternatively, a program may allow only jobs filled by state residents to count for subsidy eligibility purposes. This is especially important for projects located near a state border, for which there is a risk that a substantial share of those hired will be residents of a neighboring state. We award 3 extra credit points to programs that have either a zone or statewide geographic hiring provision.

The District of Columbia has a law on the books requiring local hiring by subsidy recipients, but the rule has not been implemented.[9] We thus did not award points to the District in this category.

Of the 238 programs we examined, 25 have geographic hiring preferences or requirements—8 relating to enterprise zones and 17 statewide provisions. They are as follows:

Table: Programs with Geographic Hiring Provisions

State	*Program*	*Geographic Preference*
AL	Enterprise Zone Credit	enterprise zone
CT	Enterprise Zone and Urban Jobs Tax Credits	enterprise zone
DE	Blue Collar Training Grant Program	statewide
FL	Enterprise Zone Program	enterprise zone
GA	Mega Project Tax Credit	statewide
IA	Industrial New Jobs Training Program (260E)	statewide
IL	Film Production Services Tax Credit	statewide
KY	Bluegrass State Skills Corporation	statewide
KY	Kentucky Business Investment (KBI) Program	statewide
LA	Enterprise Zones	enterprise zone
LA	Motion Picture Investor Tax Credit	statewide
LA	Quality Jobs Program	statewide
MI	Film Tax Credits	statewide
NJ	Urban Enterprise Zone Program	enterprise zone
NM	Film Tax Credit	statewide
NV	Train Employees Now	statewide
OK	21st Century Quality Jobs	statewide
OR	Strategic Investment Program	enterprise zone
RI	Enterprise Zone Tax Credits	statewide
TX	Texas Moving Image Industry Incentive Program	statewide
UT	Targeted Business Tax Credits	enterprise zone
VT	Vermont Employment Growth Incentive (VEGI)	statewide
WA	New Jobs in Rural Counties and CEZ Tax Credit	enterprise zone
WI	Film Tax Credit Program	statewide
WV	Film Industry Investment Act	statewide

Extra Credit 5: Labor Relations Provisions

Job-quality standards are important in promoting good jobs, but union representation is an even more effective way to achieve this end. As a matter of law, states cannot make unionization a criterion in subsidy eligibility. There are, however, ways that state agencies can ensure that subsidies are not used in ways that could undermine existing collective bargaining relationships. We award 3 extra credit points for programs that have such provisions.

Of the 238 programs we examined, 12 have provisions that relate to collective bargaining:

Table: Programs with Labor Relations Provisions

State	*Program*	*Labor Relations Provision*
CA	Employment Training Panel	Prior to presenting a funding application, the employer needs to notify appropriate collective bargaining units.
CO	Enterprise Zone Program	Labor agreements must be maintained when a company is approved for participation.
DC	New E-Conomy Transformation Act of 2000 (NET 2000)	Qualified employees cannot include those employed as the result of a strike or lockout.
IL	Film Production Services Tax Credit	Rules state that "if any of the provisions in this Section conflict with any existing collective bargaining agreements, the terms and conditions of those collective bargaining agreements shall control."
KY	Bluegrass State Skills Corporation	A company has to notify a union, if there is one, about an application for assistance, and an employer cannot ask a job applicant about his/her union affiliation or sentiment toward the organized labor; it is also prohibited to deny a job based on an applicant's affiliation with a union.
MI	Michigan Economic Growth Authority (MEGA) Tax Credits	The state may not discriminate against a company on the basis of its collective bargaining status.
MN	Job Skills Partnership Program	The program must be consistent with existing collective bargaining agreements covering health and human services workers.
MO	New Jobs Training	If there is a bargaining unit in a facility, the employer has to formally request the bargaining agent for written comments on the proposed training project.
MO	Rebuilding Communities	If a recipient company's relocation violates or terminates a collective bargaining agreement at its previous location, the company is not eligible the tax credit.
NH	Job Training Fund	The committee that reviews applications must include a member representing labor.
WA	New Jobs in Rural Counties and CEZ Tax Credit	No recipient may use tax credits approved under this program to decertify a union.
WV	Governor's Guaranteed Work Force Program	Funds may not be awarded or reimbursed to any business or industry for the training, retraining or upgrading of skills of potential employees with the purpose of replacing or supplanting employees engaged in an authorized work stoppage.

Chapter 3: Conclusions & Recommendations

Our findings on performance requirements and job quality standards in state economic development programs suggest two different conclusions. The first is that states have come a long way from the days when large sums of money were awarded to companies and the public could do little more than hope it would generate jobs and other economic benefits. Very few programs still come with no strings attached, and such common-sense safeguards are not detrimental to a state's "business climate."

On the other hand, the strings attached to many programs are weak ones. It is good that 222 of the 238 programs we examined have some sort of quantifiable performance requirement, but many do not necessarily result in job creation. The requirements may simply be that the company invest a certain amount of money in plant and equipment, which can sometimes result in a *lower* headcount. Only 135 of the programs have a requirement relating to job creation, job retention or worker training. And some of those requirements are weakened by the absence of provisions barring employers from simply shifting existing jobs from other facilities and rules mandating that the jobs be kept in existence for a minimum period of time.

The findings relating to job quality are even more disappointing. Only 106 of the 238 programs impose any wage or benefit requirement on subsidized employers. Health benefit requirements are especially limited, appearing in only 51 programs.

Although our main concerns (and scoring criteria) in this report are on whether programs have performance or job quality standards, we are also concerned about the wide variation in the strength of the specific safeguards. Some programs have minimal job creation requirements, some set minimum wage rates at near-poverty levels, and some have bare-bones employee benefit rules. Clearly, many states still have a great deal of work to do to ensure that their subsidy spending really pays off for workers, communities and taxpayers.

Towards that goal, here are our key policy recommendations based on our findings in *Money for Something*:

- Every economic development program should contain job creation, job retention or training requirements.

- Each such requirement should be strengthened by provisions excluding any existing jobs that are shifted from other facilities (inside or outside the state) and mandating that the jobs be kept in place for a minimum period of time

(preferably for at least the duration of the subsidy, such as the length of a loan or the number of years a tax break is allowed).

- Every job or training position in a subsidized facility should be subject to a wage requirement, preferably tied to dynamic labor market averages (rather than a fixed amount or a poverty rate) and structured in a way that raises wages at subsidized firms above existing market levels. Those requirements should be posted in the subsidized workplace, the way that federal minimum wage rules have to be displayed.

- Those jobs and training positions should also offer a package of employee benefits, including healthcare coverage in which the employer contributes to the cost of the premium.

- Wage and benefit requirements should be applied not only to full-time, permanent employees but also to part-time, temporary and contract workers. Job quality standards covering direct employees should not create a perverse incentive for contingent employment.

- Subsidy recipients should be barred from actions that impair collective bargaining rights.

To the broader issue of taxpayer return on investment, we are not asserting here that including all of these provisions would guarantee that any given subsidy program or deal is a good use of taxpayer funds. Even if there are job-creation requirements, they can be set too low. Even if there are wage requirements pegged to market levels, they can end up being too meager. Even if there are health benefit requirements with an employer contribution, the contribution level can be insufficient in relation to rising premium costs.

And even if all these measures are in place, they do not guarantee that a program's benefits will outweigh its costs. Sometimes the only sensible course of action is to eliminate a program altogether, which is exactly what has happened in several cases in recent years. Yet as long as a program remains in existence, it should be bolstering the economy by creating a significant number of good jobs.

Our next study will extend our deep analysis of state development programs into another aspect of basic accountability: how well are the states monitoring actual job outcomes? And how well are they protecting taxpayer interests when deals fail to deliver?

Endnotes

[1] See, for example, articles by the Associated Press (http://newsok.com/article/feed/323010), the *Des Moines Register* (http://www.desmoinesregister.com/article/20111115/NEWS/311150062/1001/NEWS) and the *Wausau Daily Herald* (http://www.wausaudailyherald.com/apps/pbcs.dll/article?AID=201111125054900.

[2] Kenneth P. Thomas. *Investment Incentives and the Global Competition for Capital*. New York: Palgrave Macmillan, 2011, p.96.

[3] *The Policy Shift to Good Jobs* can be found online at http://www.goodjobsfirst.org/sites/default/files/docs/pdf/jobquality.pdf and *Show Us the Subsidies* at http://www.goodjobsfirst.org/showusthesubsidies

[4] The following programs from *Show Us the Subsidies* were excluded in *Money for Something* because they no longer have a fiscal impact: Arizona: 21st Century Energy Demonstration Projects Grant Program; Arizona: Enterprise Zone Income and Premium Tax Credits; Arizona: Motion Picture Production Tax Incentive Program; Colorado: Job Creation Performance Incentive Program; Iowa: Film, Television and Video Project Promotion Program; Maine: Governor's Training initiative; Massachusetts: Job Creation Performance Incentive Program; Oregon: Business Energy Tax Credit; Texas: Tax Refund for Economic Development; and Washington: Motion Picture 'Contributions' B&O Tax Credit. We added the following three programs: Arizona: Quality Jobs Tax Credit Program; Massachusetts: Life Sciences Investment Tax Credit; and Utah: Industrial Assistance Fund (Economic Opportunity). Note: We retained various programs that are slated for extinction but are still providing financial benefits to some recipients.

[5] We looked for wage standards tied to minimum family budgets such as those calculated by Wider Opportunities for Women for its Family Economic Self-Sufficiency Standards, but we did not find any.

[6] We do not award the full 35 points if the market-based wage requirement mandates a percentage less than 100, since that will tend to lower rather than raise market levels. The

programs that fall into this category are Iowa's Enterprise Zone; Nebraska Advantage; Nevada's Train Employees Now; North Carolina's Tax Credits for New and Expanding Businesses; and South Dakota's Workforce Development Program. We also deny the full 35 points to programs that base wage requirements on the lowest county average in the state, since that too will tend to lower pay levels. The programs in that category are the Arkansas Advantage Income Tax Credit and the Georgia Job Tax Credit. All the programs mentioned in this note are awarded 25 points.

[7] The seven others are the ones listed in the previous note.

[8] Here are other criteria that we applied in deciding which wage standards should get the extra credit: (1) Those that do not apply across *all* industrial sectors do not qualify unless the program is designed to subsidize only that sector; (2) They must apply to all geographic areas in the state; (3) Subsidy bonuses for higher than average wages do not qualify; (4) Those based on more than 105% of the *median* state or local wage must also equal at least 105% of the average state wage; (5) statewide requirements based on 105% or more of the *lowest* area average in the state do not qualify; (6) those based on the lesser of at least 105% of the local average wage or 105% of the state average wage receive extra credit because by at least one measure this is bringing wages up; (7) those that require companies to meet a high wage threshold at some point during the course of the project are awarded extra credit even if that standard is not required from the beginning of the project. NOTE: Indiana's EDGE Tax Credit program allows a company to pay employees only 200% of the federal minimum wage (less than 105% of the state or county average wage) if they are the first business of their industry type in the state; all other businesses must pay employees at least 105% of the average compensation for workers in that industry. We granted this program extra credit because it would be highly unusual for a company to be the first of its industry type in the entire state.

[9] The failure to implement the local hiring provisions of the living wage law is discussed in a May 2010 DC Auditor's report which can be found at http://dcauditor.org/sites/default/files/DCA082010.pdf

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North Carolina Institute for Constitutional Law
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