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)