



CMAP

Reorienting State and Regional Economic Development: Lessons Learned from National Examples



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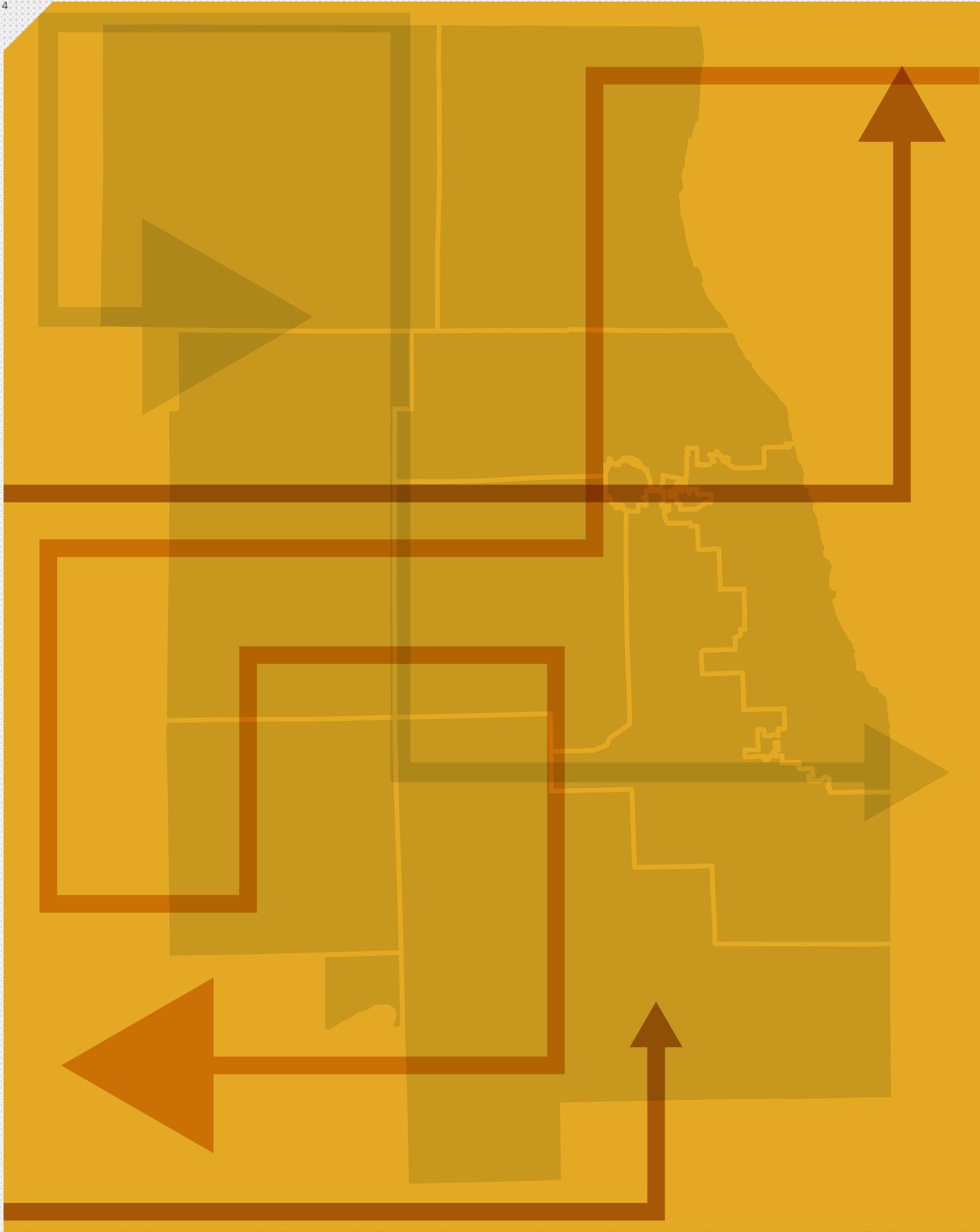


The Chicago Metropolitan Agency for Planning (CMAP) is the region's official comprehensive planning organization. Its GO TO 2040 planning campaign is helping the region's seven counties and 284 communities to implement strategies that address transportation, housing, economic development, open space, the environment, and other quality-of-life issues.

See www.cmap.illinois.gov for more information.

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Introduction

Metropolitan Chicago is home to a highly diverse and globally competitive economy. To sustain the region's economic vitality, the GO TO 2040 comprehensive plan recommends organizing the region around its existing and emerging clusters of specialization. Since the adoption of the plan, CMAP has conducted in-depth analyses of two of these clusters — freight and manufacturing. Those two reports recommend that the state and region reorient economic development strategies toward these and other key drivers of economic vitality. Economic development strategies deserve further exploration as they include a wide variety of programs, financial incentives, and practices carried out at every level of government, as well as by organizations outside the public sector.

The landscape of state and metropolitan economic development is changing in response to two major systemic issues: pervasive fiscal challenges faced by many state and local governments¹ and a rapidly changing and increasingly competitive global marketplace. While northeastern Illinois industries and economies are well-positioned to compete, more can be done to support the region's workforce, infrastructure, and innovation capacity. States and metropolitan regions can also explore new collaborations and other strategic avenues for conducting more targeted economic development.

This report explores some of the states and metropolitan regions that have already begun developing innovative strategies to reorient economic development practices. Some of these examples could prove instructive for Illinois and metropolitan Chicago. These examples are not a panacea; among each of the innovative policies and practices, several elements may require further development. The examples include broad-based state policies; the implementation of regional collaboration and cluster support; and improvements to transparency and accountability.

¹ Lucy Dadayan and Donald Boyd, "State Tax Revenues Continue Slow Rebound," Rockefeller Institute of Government, February 2013, p. 11.

Common challenges to implementing efficient and effective economic development practices

Across the U.S., state and regional economic development strategies and policies have not always kept pace with evolution of markets here and abroad. Today's economy is highly competitive, with industrialized countries and regions competing against developing economies. The pace of economic transformation has accelerated with the rapid exchange of data and information through telecommunications and movement of goods through advanced freight and logistics. At the same time, state and local governments have experienced dwindling tax revenues, increasing expenses, and deteriorating infrastructure.

In this changing environment, traditional economic development policies and practices present a range of challenges. While state or regional economic development strategies can succeed in demonstrating a competitive posture, these strategies are rarely implemented in a targeted manner that creates the highest return on investment. Similarly, programs and services often lack coordination across state agencies and between state and local governments, creating an overly complex experience for workers and businesses. The impact of specific programs or financial incentives is rarely monitored, impeding informed decision making. Finally, the resource intensive nature of economic development is often slow to adapt to economic and fiscal downturns.

This section discusses these existing challenges in turn.

Reactive use of incentives to attract and retain specific businesses

The use of financial incentives to attract and retain individual firms remains a mainstay of state economic development policy in many parts of the country. However, incentives are often deployed to respond rapidly to a specific short-term challenge or threat, rather than as a tool to implement a strategic plan.² Absent a plan that establishes priorities and targets public resources toward specific clusters of firms, these tools represent “ad hoc” economic development policy rather than strategic investment. Additionally, economic development incentives are often used to compensate for weak spots in the much larger tax and business climate and thus work to counteract regulatory barriers, tax policies, permitting processes, workforce and educational resources, and digital and physical infrastructure.³

Uncoordinated and duplicative programs and services

The breadth and scope of economic development activities have expanded significantly in recent decades.⁴ Correspondingly, resources devoted to administration of such programs and services have generally increased, but they have often resulted in overly siloed organizational structures that may be slow to adapt to technological change, the evolving needs of businesses and workers, and economic downturns. This complexity reflects the diversity of groups interested in creating jobs as well as the different funding streams available for economic development at the federal and state levels.⁵ When related programs such as workforce or small business development are administered without coordination across several state agencies, it can decrease the efficacy of the programs, increase administrative costs,⁶ result in conflicting or contradictory requirements, and confuse businesses or people seeking services.

2 Council of State Governments, “State Business Incentives Trends and Options for the Future,” October 2011, p. 7.

3 Ibid.

4 CMAP interview with Timothy Bartik, Upjohn Institute, September 2013.

5 The challenge at the local and state levels is mirrored among some federal agencies. According to recent testimony from the Congressional Budget Office, many federal economic development efforts are duplicative, lack coordination, and work at cross purposes. (Congressional Budget Office Director Financial Markets and Community Investments, William B. Shear, Testimony before the House of Representatives’ Committee on Small Businesses, May 25, 2011.)

6 Legislative Audit Bureau, State of Wisconsin, “A Review of State Economic Development Programs,” August 2006, p. 4.

Limited monitoring and evaluation to measure what works

Currently, very few states and regions have implemented mechanisms to routinely monitor and evaluate their economic development practices.⁷ In many instances, agencies only collect rudimentary data that provide little insight about the outcomes of a program or incentive.⁸ Without access to this information, it is difficult to verify results, build on successful programs, or restructure ineffective programs and incentives. Ongoing monitoring and evaluation can ensure that businesses and programs deliver on the program requirements, improve accurate accounting of costs and benefits⁹ to inform the legislative process, and enhance the public's ability to provide meaningful input.

Intraregional and intrastate competition over finite resources

Competition over economic development remains standard practice within states and metropolitan regions. Local governments have a tremendous fiscal incentive to attract and retain property and sales-tax generating developments, often at the expense of neighboring communities. State tax policies often encourage this dynamic, and some amount of competition may be healthy to implement local planning goals and efficient site selection by developers and businesses. However, intense competition over limited tax dollars is usually a zero-sum game that may encourage some degree of economic insularity among states and regions, rather than a global perspective oriented toward increasing overall economic vitality.

7 Pew Center on the States, "Evidence Counts," April 2012, p. 5.

8 Council of State Governments, "State Business Incentives: Trends and Options for the Future," 2000, p. 9.

9 Pew Center on the States, "Avoiding Blank Checks," December 2012, p. 3.

Opportunities for reorienting economic development

To nurture competitive advantages and ensure future growth, regions and states can implement strategies that align limited resources toward the most important priorities. This section provides a summary of specific economic development principles and strategies used by other states and regions around the U.S. Many of these practices have been adopted by the states and regions profiled in the forthcoming case studies.

Strategic planning to establish investment priorities

Strategic plans can provide a mechanism for states and regions to identify goals and priorities and to target resources toward solving problems. Analysis of economic specializations, opportunities, and the most pressing challenges faced by these businesses can help inform these plans. An inventory of regional assets, including universities, laboratories, support services, and workforce training can also help identify gaps and investment opportunities. Given limited financial resources, economic development incentives can be targeted towards investments that will provide the greatest return on investment.

Coordinated and streamlined programs to improve the experience for businesses and workers

State and local economic development programming can be aligned better among state agencies and local governments. Programs and services can be delivered jointly, and shared applications can be developed to more effectively implement similar policies and programs. Application and program requirements can be more consistent to enable states and regions to collect more meaningful data, improve evaluation, and enhance the overall experience for businesses and workers.¹⁰

Accessible information and evaluation of programs to inform public policy

Economic development investments can be informed by a clearly established, transparent evaluation process. Increased access to information can enable policymakers and the general public to understand which businesses used programs or incentives, the total amount allocated, the types of jobs and wages created, whether the company met performance goals, and whether any funds were returned. States can also implement a number of legislative or administrative strategies to more carefully account for the provision of incentives.¹¹ For example, tax credits can be designed to include mechanisms to trigger evaluation when their use exceeds a certain proportion of the estimated targets.

Outward facing metropolitan strategies to compete nationally and globally

Establishing common regionwide economic development priorities and procedures via multi-jurisdictional collaboration may encourage an outward focus toward more global, rather than intraregional, competition. Without changing the responsibilities or revenue streams of local governments, a more regional approach to economic development may enable the development of shared priorities and new methods to transcend intraregional wrangling over finite resources.

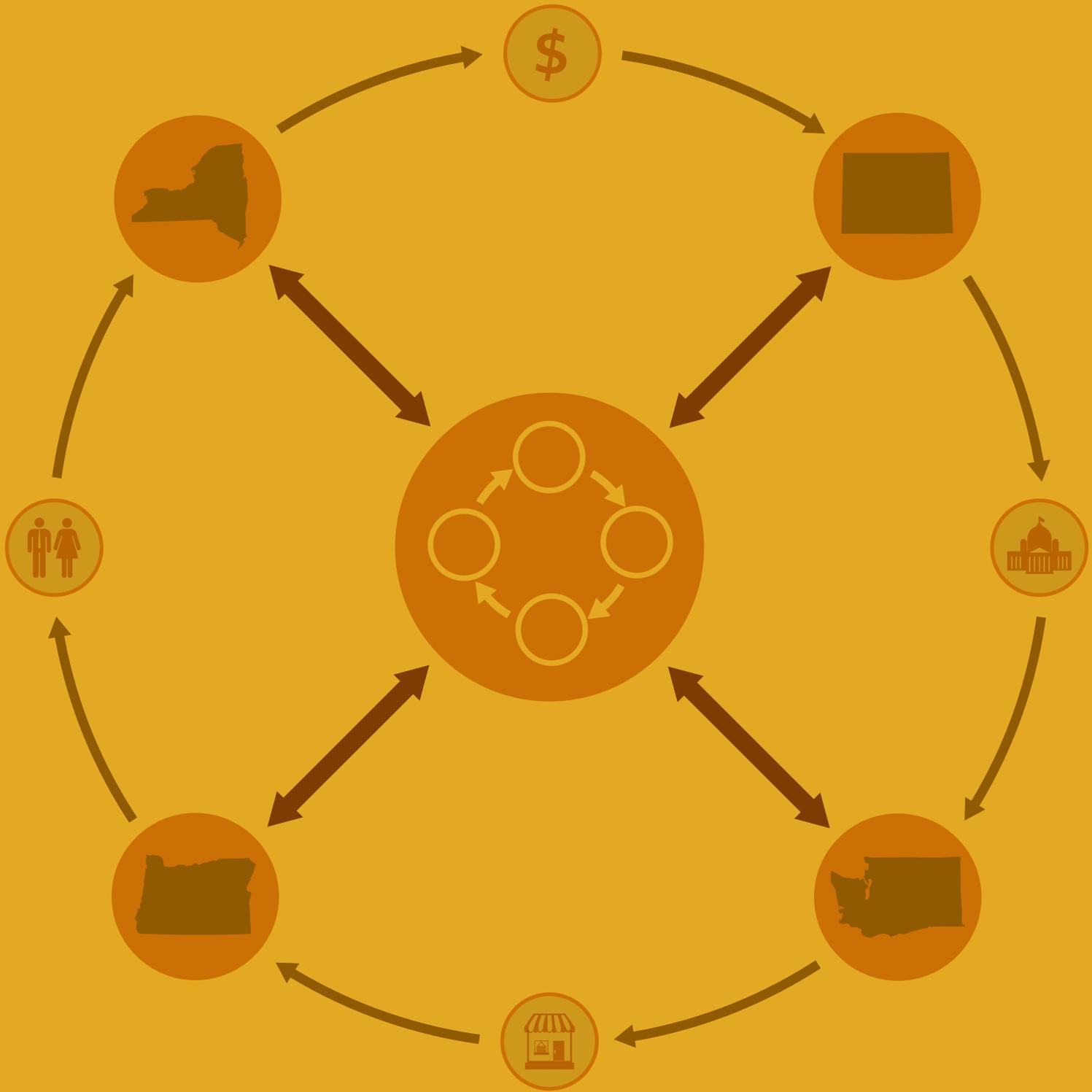
¹⁰ Council of State Governments, 2000, p. 9.

¹¹ Pew Center on the States, December 2012, pgs. 8-11.

Summary of economic development best practices

CHALLENGES			OPPORTUNITIES		
COMMON PRACTICES	WHAT THIS MEANS		BEST PRACTICES	WHAT THIS MEANS	CASE STUDY EXAMPLES
Reactive use of incentives to attract or retain specific businesses	Incentives are deployed to respond to a specific short-term challenge or threat		Strategic planning to establish investment priorities	Investments align with strategic plans that help guide state and regional priorities and incorporate local input	<ul style="list-style-type: none"> • New York State regions have developed five-year strategic plans to guide economic development investments • Metropolitan Denver analyzes and targets key industry clusters for growth and investments
	Investment decisions are made without a plan that establishes priorities and targets public resources			Data-driven plans are informed by up-to-date information on assets, economic specializations, and other challenges and opportunities	
	Incentives are used to compensate for weak spots in the overall tax or business climate				
Uncoordinated and duplicative programs and services	Related services and programs for businesses and workers are administered without coordination across agencies		Coordinated and streamlined programs to improve the experience for business and workers	Programming and program evaluation is coordinated across state agencies	<ul style="list-style-type: none"> • A consolidated application in New York coordinates all State agency funding requests • Metropolitan Denver Economic Development Corporation serves as a single point of contact for businesses interested in locating in the region
	Duplicative programs and investments are costly and cannot be sustained in light of constrained public budgets			Streamlined applications and reporting tools are used across economic development programs	
Limited monitoring and evaluation to measure what works	Agencies collect rudimentary data, that provides little insight on outcomes or impact of the investment		Accessible information and evaluation of programs to inform public policy	All incentives are budgeted for and closely monitored	<ul style="list-style-type: none"> • New York annual strategic plans, progress reports, and funding application results are made available to the public. • Non-partisan legislative staff in Washington review incentives and, together with a citizen's commission, provide recommendations to the state legislature • Renewal of tax credits in Oregon is completed as part of the appropriations process
	Without ongoing monitoring and analysis of outcomes, it is difficult to make informed policy decisions on whether to continue, reform, or terminate an incentive or program			Processes to create, reform, or eliminate economic development programs and policies are clearly established and open to public input	
Intraregional competition over finite financial resources	State tax policies often encourage local competition over limited financial resources		Outward facing metropolitan strategy to compete nationally and globally	Metropolitan-wide priorities and procedures help to guide strategies for attracting and retaining businesses and workforce	<ul style="list-style-type: none"> • Metropolitan Denver studies its region's clusters, develops strategies, and deploys national and international marketing plans based on those findings • Metropolitan Denver developed a "region first" Code of Ethics that promotes the metro area before individual communities
	Intense intrastate and intraregional competition distracts from developing strategies to gain competitiveness in the global marketplace			Multi-jurisdictional and collaborative efforts facilitate development of plans to grow regional industry clusters	

Source: Chicago Metropolitan Agency for Planning analysis.



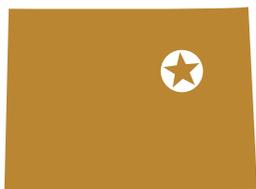
Practices and strategies from other states and regions

A number of states and metropolitan regions are pursuing strategies to establish more prioritized, coordinated, accountable, and transparent economic development policies and practices. This section presents three case studies from the State of New York, metropolitan Denver, and Pacific Northwestern states of Washington and Oregon.



State economic development driven by regional plans.

New York State transformed its top-down, disjointed economic development activities — which had been carried out by numerous state agencies — into a more streamlined process carried out through regional councils. Regions provide input on state funding decisions based on prioritized regional plans.



Regional collaboration and robust cluster development.

Metropolitan Denver shows that promoting a whole region can yield positive results. Partnering with universities, the private sector, and federal agencies, the region has carried out collaborative efforts to cultivate advanced industry clusters.



Transparent and regular evaluation.

Washington and Oregon lead the way in rigorous analysis of tax incentives and have taken steps towards building accountability into economic development funding.

Strategic planning and coordinated investment in New York State

To plan strategically, establish investment priorities, coordinate and streamline programs, and provide accessible information on investments, the State of New York has worked to align its economic development investments with regional priorities. In 2011, the state implemented a model for distributing many of its economic development funds through newly developed Regional Economic Development Councils. This first case study begins by examining the institutions created to prioritize economic development investments. Next, it describes the tools used to inform decisions and measure progress. Finally, it concludes with a discussion of the work left to do, including the need to increase stakeholder representation and improve the quality of data and analysis on economic development investments.

Local input through Regional Economic Development Councils

In an effort to better coordinate and inject more local input into the State of New York's economic development decisions, Governor Cuomo's administration reformulated regional councils through administrative order in 2011.¹² The state reallocated some of its state economic development agency staff resources to support the councils and facilitate a common application process for economic development funding. Beyond incentivizing regions to strategically plan for achieving their own economic goals, regional councils help break down siloed activities across more than a dozen state agencies.¹³ The regional councils were also designed to better position the state for receiving federal funds, which are increasingly oriented towards projects that promote regional collaboration.¹⁴

Although the initiative is still relatively new, the state has increased its commitment to distribute funding through the regional councils. Following the completion of regional strategic plans, state agencies now coordinate their economic development programs with regional councils. In its first year, regions applied for nearly \$600 million available in state economic development funding from over a dozen state agencies.¹⁵ This included approximately 30 agency programs awarded in grants, tax credits, and tax-exempt bonds for workforce development, energy research, homes and community renewal, transportation, the environment, and open space.¹⁶ Figure 1 illustrates the transition from disparate economic development application and decision making processes to a more aligned system facilitated partially through the regional economic development councils. Each year, available funding for this process has increased.

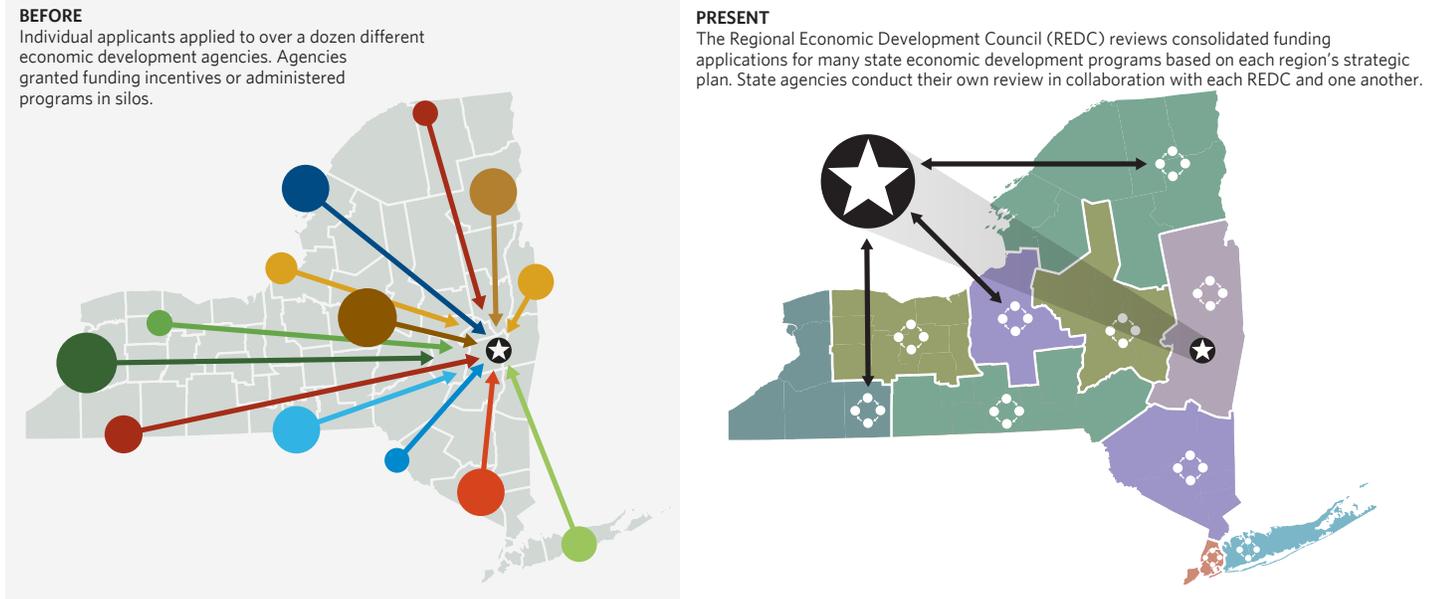
12 Office of Governor Cuomo, "Governor Cuomo Launches Regional Council Chairman's Committee," July 29, 2011.

13 Bruce Katz and Judith Rodin, "Empowering Regions to Reinvent Themselves," Atlantic Cities, January 20, 2012.

14 Ibid.

15 The state agencies include: Department of Agriculture and Markets; Department of Environment and Conservation; Department of Health; Department of Labor; Department of State; Department of Taxation and Finance; Department of Transportation; Dormitory Authority of the State of New York; Environmental Facilities Corporation; New York Power Authority; New York State Energy Research and Development Authority; New York State Homes and Community Renewal; Office of Parks, Recreation, and Historic Preservation; and State Education Department.

16 Empire State Development, press release, "CFA Application Period Now Open for Round II of Regional Economic Development Council Initiative," June 17, 2013.

Figure 1. Reorienting New York State economic development practices

Furthermore, an additional \$200 million in discretionary funds are awarded specifically for selected regional councils to implement projects identified in their strategic plans.¹⁷ Regional councils were selected for this funding on the basis of their plans, feasibility of implementation, and, in subsequent years, the region's execution of plans. Competitive grants came from two major streams of funding: Empire State Capital Funds and Excelsior Jobs Program. Capital funds are awarded to businesses, non-profits, and local governments for activities such as land acquisition, new construction, planning, and feasibility studies.¹⁸ The Excelsior Jobs Program grants tax credits for job growth and investment in strategic industry clusters: computers and electronics, bio-tech, clean-tech, and manufacturing.¹⁹ Investments include infrastructure improvements for multiuse commercial space and transportation center, construction of a cancer research facility, and expanding cluster-based workforce training programs at a community college.²⁰

Multi-sector stakeholder governance

Each regional council consists of roughly 20 members from local businesses, academia, workforce development agencies, civic organizations, and local and state elected offices. The council members were appointed by the governor.²¹ Each is chaired by the lieutenant governor and co-chaired by leaders from academia and the private sector.²² Regional councils are staffed by the state's economic development agency, Empire State Development.²³ Also, the statewide Chairman's committee, made up of the co-chairs from each regional council, serves as a forum to resolve challenges and provide guidance on how to improve upon the regional council's work. The committee helps ensure that each regional council's work contributes to resolving interregional or statewide conflicts, identifying and reducing barriers for growth across regions, and providing guidance on individual projects.²⁴

17 Align NY, "At a Glance: Regional Economic Development Councils," August 19, 2011.

18 Empire State Development, PowerPoint slides "Regional CFA Workshop," October 4, 2011.

19 Empire State Development, "Excelsior Jobs Program," see <http://www.esd.ny.gov/businessprograms/excelsior.html>.

20 Office of Governor Cuomo, "Governor Cuomo Announces \$785 Million in Economic Development Funding Through Regional Councils," Press Released, December 8, 2011.

21 CMAP interview with Align NY, September 18, 2013.

22 New York State Department of Labor, "Open for Business: A New State Government Approach to Economic Growth," August 4, 2011, p. 13.

23 Align NY, "At a Glance: Regional Economic Development Councils," August 19, 2011.

24 Office of Governor Cuomo, July 29, 2011.

Strategic plans and implementation

First, the councils created strategic plans that articulated a vision for regional economic development, outlined the implementation process, identified available resources, and established performance metrics. These prioritized five-year strategic plans were developed with public input through forums, hearings, and on-line surveys.²⁵ The state posed four straightforward questions to the regions:²⁶

- *Where are we now?*
- *Where do we want to be?*
- *How do we get there?*
- *How are we doing?*

The regional councils convened groups of experts to evaluate priorities, suggest strategies, and set economic development targets. Plans also identify various infrastructure improvement priorities, such as construction of a new Tappan Zee Bridge in the Mid-Hudson Region.²⁷

The planning process included several steps for the state and regions to provide and receive feedback. A group of outside experts from think tanks, academia, and the public sector ranked all of the regions' comprehensive plans.²⁸ They evaluated each plan vision, process, strategies, and implementation approach. Other factors included how the region intended to use existing assets, partner with existing institutions and attract private-sector investment, and measure performance.²⁹ In the first year, four regions were awarded the majority of competitive grants available for capital funding and the Excelsior Jobs Program.³⁰ The experts also observed that the regions were well-positioned to use the plans to make funding decisions for local funding streams.³¹

Each plan describes priorities such as improving infrastructure to meet the needs of particular sectors or attracting a young, college-educated workforce. The regions prioritized potential projects, such as a technology innovation park or guidelines for workforce training in particular industries. Some projects identified in regional plans receive state-awarded competitive funding.³²

Regions also use strategic plan priorities to evaluate proposals through a Consolidated Funding Application (CFA) to state agencies. Regions are focused on promoting applications that align with their strategic goals. For instance, the five-county Western New York region prioritized regional impact in its application review: Projects benefiting three or more counties will be directly aligned with this criterion, those impacting two will only be considered aligned, and a project with only local benefits will not meet the criterion.³³ Projects were prioritized for their ability to address the needs of industries that are important to the entire region or improve infrastructure in areas to attract investment in key corridors or sectors.

Each region answered the "where are we now?" question with results from public input and analysis of existing conditions. The plans prioritize the challenges that will be addressed and the assets that will be leveraged. Based on this initial assessment, the regions identify specific "how do we get there?" strategies to achieve "where would we like to be?" goals and economic development objectives. Strategic plans guided the regional plans' policies, principles, and projects to set implementation agendas, performance measures, and a schedule for prioritized projects. The plans were designed as a starting point, not an isolated exercise. Figure 2 includes an example from Western New York on the plan's specificity about projects.

Priorities in the five-year plans continue to guide regional councils' evaluation of proposals for state funding.³⁴ Not only do the council implementation reports measure advancements of priority projects, they also provide details of how they are evaluated through the state grant process. Regions are also encouraged to improve on their initial strategies and implementation because the majority of funds available each year continue to be competitively allocated.³⁵

25 Align NY, 2011.

26 New York State Department of Labor, 2011, p. 24.

27 Mid-Hudson Region Economic Development Council, "Strategic Plan," 2011, p. 29.

28 Empire State Development, "President of Empire State Development Kenneth Adams Announces Membership of Strategic Plan Review Committee," November 17, 2011.

29 Ibid.

30 Office of Governor Cuomo, December 8, 2011.

31 For instance, the committee suggested that the New York City Region could use its plan for economic development funding from the New York/New Jersey Port Authority. (CMAA interview with Good Jobs NY, 2013.)

32 Office of Governor Cuomo, December 8, 2011.

33 Western New York Regional Economic Development Strategic Plan, "A strategy for prosperity in Western New York," November 2011.

34 Josh Kellermann and Kristi Barnes, "The \$7,000,000,000 Wager: New York State's Costly Gamble in Economic Development," Align NY, May 2013, p. 34.

35 North Country Regional Economic Development Council, "2012 CFA Assessment & Score Cards," 2012, p. 2.

Figure 2. Example of prioritized projects and measuring progress

Strategic plans set up the existing conditions and policy priorities, but they also identified strategic projects for addressing goals. This figure includes an example of a project included in the “Prepare Our Workforce” segment of the Western New York plan, which emphasized supporting industries like health and art and culture.

Regional Implementation Agenda

How do we get there?

Prepare our workforce

PROJECT/ PROGRAM	WHO (Lead Organization)	RESOURCES (Needed & In-hand)	MILESTONES	SCHEDULE
Buffalo Arts & Technology Center	Private sector, Buffalo public schools superintendent and districts, foundations, community based organizations.	Approximately \$3.5 million from private sector and local foundations with additional support sought through local campaign	Unemployed and high school students in need of mentorship and motivation to remain in high school. Adults: workforce development leading to employment in health related fields. Approximately 80 adults enrolled annually. Youth: After school/summer arts studios engaging 160 at- risk youth annually. Center will employ approximately 10 FT and 3 PT staff by year three.	Oct. 11 - Process begun to secure local funding. Oct. 11 - Plan in place. Jan. 2013 - Scheduled to open

Monitoring through the 2012 progress report provides detail on tasks achieved as well as upcoming tasks for implementation.

PROGRESS ON IMPLEMENTATION	MONTH/YEAR	COMPLETE	ON SCHEDULE
Feasibility study	MARCH 2012	✓	
By laws adopted	MARCH 2012	✓	
Articles of incorporation completed	MAY 2012	✓	
Affiliation/implementation agreement signed with NCAT	JUNE 2012	✓	
Site lease signed with artspace	AUGUST 2012	✓	
Parking lease signed with Agassiz Holdings Inc.	AUGUST 2012	✓	
Executive director search underway	AUGUST 2012	✓	
5013c3 application filed	AUGUST 2012	✓	

FUTURE TASKS	MONTH/YEAR
Hire executive director	SEPTEMBER 2012
Select architect	OCTOBER 2012
Approve build-out plans	FEBRUARY 2013
Hire builder	FEBRUARY 2013
Space build-out	MARCH - AUGUST 2013
Form affiliations with curriculum partners	JANUARY - MAY 2013
Construction completed	SEPTEMBER 2013
Recruit/hire teaching artist and adult educators	APRIL - JUNE 2013

Sources: Western New York Regional Economic Development Council Strategic Plan 2011, and Implementation Report 2012.

Consolidated Funding Application

Businesses, municipalities, and non-profits that apply on-line for state economic development funding through the regional councils use the same common application, the New York State Consolidated Funding Application, or CFA.³⁶ Previously, those organizations had to submit individual applications directly to each state agency. The new application serves as a single entry point for applicants to access up to \$760 million in grants in 2013.³⁷ Empire State Development has made information about each of the funding programs available through this web-based application as well.

Each regional council collaborates with state agencies to review the submitted CFAs. Both the economic development council and state agencies must score each proposed project based on relevance and applicability to that region's strategic plan. However, the state still controls funding through a weighted scoring system in which the regional council has 20 percent input and 80 percent is determined by the state agency.

For each grant cycle, the State of New York website provides CFA scorecards with names of applicants and how they fared.³⁸ Annual reports include narrative feedback on overall strengths and weaknesses. The score sheet sample in Figure 3 from the Mid-Hudson Region shows the programs to which applicants applied, whether they applied for funding in multiple regions, which projects were funded, and at what level.

Figure 3. Sample results: Mid-Hudson 2012 Consolidated Funding Application review score sheet

STATE AGENCY	PROGRAM NAME	PROJECT NAME	APPLICANT	STATE AGENCY SCORE (OF 80)	REDC SCORE (OF 20)	TOTAL SCORE	AGENCY RECOMMENDED FUNDING	AWARDED?
Empire State Development	ESD TDBC	Southeast Towers Preservation LP	City of Middletown Industrial Development Agency	80	20	100	\$7,000,000	Awarded
Empire State Development	ESD TDBC	EBC Armonk	Westchester County IDA	80	18	98		Not awarded
Housing and Community Renewal	HCR CDBG PI	Kiryas Joel Wastewater Project	Village of Kiryas Joel	71	20	91	\$594,000	Awarded
HCR	HCF CDBG PI	Land Acquisition for Job Opportunities	Village of New Square	40	15	55	\$750,000	Awarded
HCR	HCR NYMS	Main Street Façade grant	Highland Fall Local Development Corporation	40	20	60		Not awarded
Parks	Parks PA	Mohonk Preserve Foothills Connectivity Acquisition	Mohonk Preserve	55	20	75		Not awarded
Parks	Parks PA	Marbletown Rail Trail Bridge Planning and Construction	Town of Marbleton	46	20	66	\$44,280	Awarded

Source: New York State CFA Project Data, Mid-Hudson Score Sheet 2012, see http://www.nyscfaprojectdata.ny.gov/sites/default/files/pdf/2012CFA/Mid_Hudson_Full_2012.pdf.

Note: The sample results above show that while resource allocation decisions often reflect the quantitative scoring system, they also may reflect state agency prerogative. Although regional councils score each proposal, state agencies priorities often prevail and may not always directly align with regional priorities.

36 Empire State Development, "CFA Application Period Now Open for Round II of Regional Economic Development Council Initiative," June 17, 2013.

37 Ibid.

38 New York State, "CFA Project Data," see <http://www.nyscfaprojectdata.ny.gov/regional-documents>.

Improving on current practices

The state has sustained its dramatic new course for economic development programming. However, stakeholders involved in the process have identified strategies the state and regional councils could use to improve accountability, increase the diversity of voices on the regional councils, and better direct economic development resources toward higher quality jobs.

First, while strategic plans identify concrete goals and CFAs collect significant project data on the front end, the regional councils do not measure outcomes across programs and regions.³⁹ According to Align NY, a non-profit advocacy and research organization, meaningful benchmarks are added to the application process but are not used to evaluate the eventual outcomes.⁴⁰ Each regional council developed its own benchmarks to align with each strategic plan goal. However, these benchmarks were used to analyze the merits of an application instead of to develop comprehensive analysis of program and investment outcomes throughout the region and state.⁴¹

Second, because the governor's appointees are primarily from business and academia, the councils might benefit from additional balance.⁴² The regions themselves could be allowed to make some local appointments. This could help increase participation of stakeholders, such as workforce development practitioners or other advocates who can advise on how to improve the quality of jobs created as a result of the economic development investments.⁴³

Lastly, regional councils are not required to establish job creation requirements in exchange for funding, nor are job quality requirements imperative in the strategic plans.⁴⁴ As a whole, New York's economic development programs do not have consistent requirements for jobs quantity or quality (as determined by skill level, pay, and benefits). Including such a requirement would provide important information about the broader economic impact of the public investment.

Spotlight on transparency: New York City Subsidy Database

As work is underway at the state level to improve transparency in economic development, one effort at the local level made detailed data on incentives highly accessible. New York City has taken major steps toward increasing its transparency around economic development subsidies. In 2010, New York City passed significant local subsidy transparency legislation. Under Local Law 62 (LL62), the City annually posts a downloadable, highly detailed spreadsheet with economic development subsidies dating back to 2006.

LL62 requires New York City's Regional Economic Development Council (NYCEDC) to release a broad array of data points ranging from who received the subsidy, which of the numerous economic development agencies awarded the subsidy, from what program, specific geography, duration of the subsidy, and total value of the subsidy. For programs that have jobs requirements, data include jobs at the start of the deal, jobs projected, jobs at the point-in-time of reporting, and percentage of employees living in New York City. Finally, the database allows the public to discern important financial details such as the amount of the subsidy used to-date and whether any amount was recaptured. Additionally, the City provides detailed descriptions of the data included on the spreadsheet, illuminating how different project requirements impact the information presented in the spreadsheet.

The same website also includes minutes from the major NYCEDC committees. Committee meetings since late 2011 are available for the board of directors, audit committee, executive committee, real estate and finance, and legal affairs groups. Additionally, annual project investment reports that cover job retention and growth are available on the site.

Sources: New York City Municipal Code, Local Law 62 of 2011, NYCEDC Financial and Public Documents, and Interview with Good Jobs NY.

39 CMAP interview with Align NY, September 18, 2013.

40 Ibid.

41 Citizens Budget Commission, "Recommendations for Next Round of Economic Development Council Awards," October 2012, p. 3.

42 Empire State Development, November 17, 2011 and CMAP interview with Good Jobs NY.

43 CMAP interview with Good Jobs New York, September 11, 2013.

44 For example, New York City Regional Council did include strict requirements, "only projects that directly or indirectly create and/or retain jobs receive priority, with special consideration for the quality of jobs as measured by wage levels and benefits, performance, and/or access to longer-term career advancement opportunities." (New York City Regional Economic Development Council, "Strategic Plan," 2011, p. 31.)

Regional collaboration for clusters in metropolitan Denver

In the 1980s, metropolitan Denver's economy relied heavily on the energy sector. When oil and gas industries contracted, the impact was felt across Denver's and Colorado's economy.⁴⁵ Inspired in part by an increasingly negative economic outlook, the region took steps to strengthen and diversify its economy. Economic developers united all of the region's jurisdictions and levels of government to build on metropolitan Denver's strengths — strong universities, a national laboratory, and nearby Department of Defense facilities — to increase competitiveness and attract advanced industries such as aerospace, aviation, and bioscience. This second case study explores how one metropolitan region uses multi-jurisdictional collaboration to foster growth in high tech clusters.

Code of Ethics

The Denver region has established a framework by which municipalities should carry out economic development. All the region's municipalities, counties, and economic development organizations are signatories to a "Code of Ethics," which promotes the region first and discourages communities from soliciting intraregional business moves.⁴⁶ The code was developed in 1987 by a small group of economic development professionals who observed that competition among municipalities in their region further diminished already limited resources. Today, the code is administered through the Metro Denver Economic Development Corporation (EDC), an affiliate organization of the Denver Metro Chamber of Commerce.⁴⁷ Comprised of over 70 members from municipalities, counties, and economic development groups, the Metro Denver EDC is one of the nation's few regional economic development agencies.⁴⁸ The organization is funded through annual commitments from economic development organizations, such as the Denver Metro Chamber of Commerce, educational institutions, industry groups, and area companies.⁴⁹

First and foremost, the code obligates all municipalities and counties to promote "Metro Denver First" before individual communities or projects.⁵⁰ Communities are discouraged from approaching businesses located in other municipalities or marketing against another municipality in the region. The policy is by no means foolproof. Relocations within the region do occur. In the event that a company chooses to relocate within the region, "every effort will be made to contact the affected community and let them know."⁵¹ Not doing so is considered a serious violation of the Code. However, municipalities are compelled to maintain strict confidentiality should the company in question prefer to remain anonymous. Potential code violations are reviewed by the Metro Denver EDC and deliberated over by a group of the community's peer economic development professionals.⁵² Entities found to have violated the code typically must issue a formal and public apology to all affected stakeholders. Although it has yet to do so, Metro Denver EDC reserves the right to eject a member and halt its access to the agency's recruiting resources and prospect database, its inclusion in site visits by interested companies and industries, and its use of the organization's economic data and research.⁵³

At its core, the code promotes information sharing and transparency to reduce intraregional competition when a company is considering a move to the Denver region. However, it exists in tandem with moderated competition when a prospect solicits specific proposals or makes a commitment to locate in metropolitan Denver. Once a company has decided to move to the region, local governments may compete against one another by offering incentives, infrastructure investments, or other benefits. Metro Denver EDC provides support to all signatories of the code, which currently includes all municipalities and counties in its region.

45 Brett Common, "Regional Cooperation Agreements in Economic Development," National League of Cities, 2013.

46 CMAP interview with Metro Denver EDC, September 26, 2013.

47 "About Metro Denver EDC," see <http://www.metrodenver.org>.

48 Brett Common, 2013.

49 "Metro Denver EDC Investment," Metro Denver EDC, March 8, 2012.

50 Metro Denver EDC, "Code of Ethics," see <http://www.metrodenver.org/about-metro-denver-edc/code-of-ethics.html>, updated November 2004.

51 Metro Denver EDC, "Code of Ethics," 2004.

52 Margaret Jackson, "Aurora, economic development officials troubled by efforts to sink Gaylord Hotel," Denver Post, October 19, 2011.

53 CMAP interview with the Metro Denver EDC, September 26, 2013.

Metro Denver Economic Development Corporation

The Metro Denver EDC primarily focuses on attracting businesses to metropolitan Denver. It commissions economic studies of the region and serves as a central repository for the area's data on industrial real estate, business moves, starts, job growth, and overall economic health. It conducts a significant portion of the region's national and international marketing, courting industries and companies from around the nation and world to consider relocation or expansion in the region.⁵⁴ The Metro Denver EDC helps municipalities and counties prepare and develop attractive pitches. It also coordinates with other local resources including universities and local industry associations. Once a company has selected the region, the organization can assist with site selection and employee relocation.⁵⁵

Although the organization works with the City of Denver, it is particularly helpful for smaller municipalities, some of which have very limited capacity and resources to carry out these types of activities. Metro Denver EDC serves as a single point of contact for companies and site selectors considering a move to the region. It solicits and compiles proposals that the entire region can access and review. Furthermore, whenever a prospect contacts any local partner, that information is shared with the entire region through a central database.⁵⁶ Stakeholders from around the region gain access to detailed information on the company. Without this information, municipalities would be left on their own to research and court prospects individually. Access to these services serves as an incentive to adhere to the Code of Ethics.

Strategic cluster development

Upon implementing the code, the region set out to cultivate high-tech clusters where knowledge and technology would flow across industries and spur new development.⁵⁷ Working collaboratively, the region has become the second leading metropolitan area for aerospace engineering, manufacturing, and research in the last two decades.⁵⁸ It has also emerged as an important services hub for financial services, computer and software design, and data processing.⁵⁹ Economic development professionals in the region collaborate with multiple levels of government, private industry, the national labs, and colleges and universities involved in teaching and research.⁶⁰

The Denver region prominently markets its assets: a deep talent pool of scientists, engineers, and entrepreneurs; its proximity to numerous military and department of defense facilities; strong university and federal research facilities; and the state and local governments interested in supporting these industries.⁶¹ The region also markets its efforts to expand transportation infrastructure. Through legislative efforts led by the Chamber of Commerce and business leaders, the state made substantial transportation investments in the past two decades, including the Denver International Airport and T-Rex, a \$1.7 billion project to widen major interstates and add light rail.

The region has organized around its advanced clusters. Metro Denver EDC works to convene and regularly communicate with a variety of stakeholders including core cluster industries, as well as suppliers, research institutions, and customers. Advanced industries require strong support to keep pace with innovation in their fields. Today, the Denver region is home to an entire ecosystem of companies and institutions critical to supporting and growing advanced clusters, from financial firms capable of large investments, to university labs capable of cutting-edge research and training.⁶²

Metropolitan Denver continually refines its cluster development strategy. Each year, the Metro Denver EDC commissions a study to monitor the health of its clusters and to refine its marketing plan and activities.⁶³ The cluster reports are also marketing tools that include data about the size and growth (or contraction) of clusters, with descriptions of recent government contracts to area firms and of collaborations involving industries, labs, or both.

54 Ibid.

55 Denver Metro Chamber of Commerce, "Futureworks: Minding Their Civic Business," 2004, p. 3.

56 Denver Metro Chamber of Commerce, "Minding their Civic Business," 2003.

57 John Rebchook, "Industries targeted for growth and retention in Denver Area," Inside Real Estate News, February 2013.

58 Global Cities Initiative, "The 10 traits of Globally Fluent Metro Areas: Denver," The Brookings Institution and JP Morgan Chase, 2013, p. 3.

59 Patty Silverstein and Lisa Strunk, "Metro Denver and Northern Colorado Key Industry Clusters," Metro Denver EDC, 2012, p. 7.

60 Michael Porter, "Clusters, Innovation, and Competitiveness: New Findings and Implications for Policy," presentation in Stockholm, Sweden, January 22, 2008, slide 27.

61 Jerry Szatan, "Front Range Rising," Urban Land Institute, September 2006, pgs. 2-3.

62 Silverstein and Strunk, 2012, p. 7.

63 CMAP interview with Metro Denver EDC, September 26, 2013.

Improving on current practices

In many regions throughout the country, local governments are often at a disadvantage because of limited or incomplete access to information necessary for negotiating with site selectors or prospects. Although the Code of Ethics aims to improve coordination and reduce those barriers, there is room to improve current economic development practices throughout the region. Numerous potential infractions occur each year, and the organization must review complaints on an ongoing basis.⁶⁴ No organization has yet been expelled from the group.⁶⁵

Although the Code of Ethics has been in place for years, municipalities continue to support intraregional moves. The code leaves room for municipalities to compete using local incentive packages. Local governments have several incentives to entice firms, including a rebate or credit on personal property tax, business loans, and infrastructure assistance or grants. Municipalities with Enterprise Zones also have the option of providing new companies with property tax rebates and credits.⁶⁶

64 Margaret Jackson, Denver Post, 2011.

65 CMAP interview with Metro Denver EDC, September 26, 2013.

66 BLS Strategies, "State Incentives Snapshot: Colorado," see <http://www.blsstrategies.com/state-incentives>.

Accountability in the Pacific Northwest

Oregon and Washington have each taken steps to enhance the transparency and accountability of tax credits for economic development. While the efforts began as specific policy changes regarding the employment of tax credits, with Washington requiring evaluations and Oregon adding sunsets, they transformed into strategies that provide much more information on the purpose of tax credits and their impact on state finances and the economy. In Washington, there is a clearly established evaluation process that is open to public input. In addition, recently adopted legislation requires that new tax preferences include a statement of purpose as well as data requirements to ensure that the effectiveness of the tax preference can be measured. In Oregon, tax credits are renewed every six years in tandem with the appropriations process, and new legislation specifies what future tax credit evaluations must include. The third case study looks at how these two northwest states are addressing the need for accountability in economic development.

Washington

In 2006, the State of Washington enacted legislation establishing the Citizen Commission for Performance Measurement of Tax Preferences.⁶⁷ Its purpose is to facilitate the process of reviewing all of Washington's 600 tax preferences, which include tax credits addressing an array of policy goals, some of which encourage economic development. A new state budget is enacted every two years, which means that the state legislature reviews these expenditures regularly. Although tax credits and preferences reduce the amount of revenue available, they are not counted on the expenditure side. As a result, they are not reviewed as part of the budget process. By instituting tax preference reviews and making that information public, Washington is bringing more transparency to this aspect of state finance.

Tax preference evaluation process

The Commission has five appointees of the legislature and the governor. The State Auditor and the Chair of the Joint Legislative Audit and Review Committee (JLARC) are non-voting members. The Commission develops a schedule so each preference is reviewed on a ten-year cycle. Although it varies year to year, approximately 20 to 30 are reviewed annually by both the Commission and JLARC staff, with approximately 50 more discussed by the Commission. By requiring that all preferences be evaluated and using an appointed commission to facilitate the reviews, the evaluation process is depoliticized.⁶⁸

After the schedule is set, nonpartisan JLARC staff evaluates each tax preference and makes a recommendation to the Commission. The Commission takes public comment on the tax preferences and also has the ability to comment on the JLARC evaluation, but it cannot change the evaluation. The Commission then can make a recommendation to the legislature regarding the tax preference. The Commission's recommendations are based on consensus among the five members.⁶⁹ The JLARC evaluations, recommendations, and Commission comments and recommendations are made available on the Commission's website.⁷⁰

67 State of Washington, Revised Code of Washington, Chapter 43.136.

68 The Pew Center on the States, Evidence Counts, April 2012.

69 CMAP interview with State of Washington Legislative Auditor, September 27, 2013.

70 Citizen Commission for Performance Measurement of Tax Preferences, State of Washington, see <http://www.citizen taxpref.wa.gov/reports.htm>.

Evaluation content

The evaluations are guided by 11 topics outlined in statute, which yield a more holistic approach to assessing tax preferences than simply determining the fiscal impact.⁷¹ Staff researches and evaluates the public policy objectives and beneficiaries of the tax preference, whether objectives are being achieved, revenue impacts, the trade-offs of providing tax preferences instead of government activities that would otherwise be funded, and if other states have a similar policy. One major challenge to evaluating tax preferences is oftentimes the purpose or intended outcomes are not clear from the statutory language.⁷² This creates some challenges in making a fact-based evaluation and requires review of session and committee records.

JLARC staff makes a recommendation to the Commission on whether the legislature should continue, review and clarify, terminate the tax preference, or let the tax preference expire if it has an expiration date. The Commission then acts to endorse this recommendation, endorse the recommendation with comment, or make its own recommendation to the legislature. Regardless of the Commission's endorsement, the JLARC staff recommendation is made publicly available and cannot be altered by the Commission.

Legislative actions on tax preferences

There has been very little legislative action in response to the process. JLARC keeps a scorecard of legislative action on their findings. The Commission has reviewed or discussed 338 preferences. Thus far, JLARC has evaluated 188 tax preferences and has recommended that 12 be allowed to expire, eight be terminated, and 51 be reviewed and clarified. Among these, the Commission has endorsed 167 of these recommendations. At the same time, the legislature has reviewed or clarified three tax preferences, modified the expiration dates of nine tax preferences, and allowed 11 tax preferences to expire by taking no action on incentives nearing their end date. The legislature has not taken action on any of the tax preferences without an expiration date that were recommended to be terminated. Figure 4 provides an overview of legislative actions since 2007 compared with JLARC and Commission recommendations, among the tax preferences reviewed by JLARC.

Figure 4. Legislative actions on tax preferences reviewed, by the Joint Legislative Audit and Review Committee and Citizens Commission for Performance Measurement of Tax Preference recommendations

TYPE OF RECOMMENDATION		NUMBER OF TAX PREFERENCES, BY TYPE OF LEGISLATIVE ACTION TAKEN				
JLARC STAFF	COMMISSION FINDING	NO ACTION REQUIRED OR NO ACTION TAKEN	BILL INTRODUCED BUT NOT ENACTED	IMPLEMENTED JLARC RECOMMENDATION	ALLOWED TO EXPIRE	MADE DIFFERENT POLICY CHOICE
Continue	Continue	99				
Continue	Terminate	1				
Allow to expire	Allow to expire				7	4
Continue and modify expiration date	Continue and modify expiration date			7	1	
Terminate	Terminate	1	4			
Continue	Review and clarify	4				
Review and clarify	Allow to expire		3	1		
Review and clarify	Terminate		4			
Continue and modify expiration date	Review and clarify			2	2	
Terminate	Review and clarify	2	1			
Allow to expire	Review and clarify					1
Continue	Terminate	1				

Source: CMAP analysis of Citizen Commission for Performance Measurement of Tax Preferences data, <http://www.citizentaxpref.wa.gov/reports.htm>.

71 State of Washington Joint Legislative Audit & Review Committee, "2013 Tax Preference Performance Reviews Preliminary Report," August 2013, see <http://tinyurl.com/lvww5r6>.

72 CMAP interview, September 27, 2013.

Among those tax preferences allowed to expire, several were for economic development purposes.⁷³ The business and occupation tax deduction for certain beef processors was the first evaluation completed by JLARC because it was due to expire December 31, 2007. The deduction had been enacted in 2004 in response to import bans of U.S. originated beef as a result of the bovine disease commonly known as mad cow disease. The evaluation found that while the deduction provided tax relief to beef processors, the processors did not have to be exporters to foreign markets to claim the deduction.⁷⁴ The evaluation also found that the industry had rebounded since the end of the ban. JLARC recommended that the preference be allowed to expire, and the Commission endorsed the deduction. By taking no action, the legislature let the deduction expire.

In response to the evaluation and Commission recommendation, the legislature also let business and occupation tax credits expire for firms in rural counties in the software development or computer help desk service industries. These tax credits were intended to attract and retain a high technology workforce to rural areas and address the rural-urban economic disparity in the state. However, JLARC found that these objectives have not been fulfilled.⁷⁵ The tax credits expired January 1, 2011.

Policy changes to improve tax preference information and evaluation

Overall, the process has resulted in more dialogue regarding what kinds of information should be included in tax preference statutory language. Weary of receiving recommendations to “review and clarify” tax preferences, legislators began to include policy goals in legislation. The state also recently enacted a bill requiring that policy goals be included in legislation.⁷⁶

The recently enacted law⁷⁷ requires that, beginning August 1, 2013, newly enacted or expanded tax preferences sunset in ten years unless the legislation includes a different expiration date. Bills that would provide for a new tax preference must include a statement that details the legislative purpose of the preference. In addition, the new law provides six different possible purpose categories that must be indicated, such as to induce certain designated behavior by taxpayers, improve industry competitiveness, create or retain jobs, reduce structural inefficiencies in the tax structure, or provide tax relief. A category called “general purpose not identified” is also an option. The statement must specify clear, relevant, and ascertainable metrics and data requirements that allow JLARC and the legislature to measure the effectiveness of the tax preference in achieving the designated purpose. If this information is not included, the statute states that JLARC is not required to review the tax preference and that it is legislatively presumed that the legislative intent was to allow the tax preference to expire at its scheduled date.

The bill also provides for additional transparency with regard to taxpayers benefitting from a tax preference. The amount of tax preference claimed by a taxpayer for any new tax preference is subject to public disclosure if: the reporting period was at least two years ago, the tax preference is more than \$10,000 in a particular year, and the information is specified as a data requirement in preference’s the purpose statement. However, public disclosure can be waived by the state for good cause, such as economic harm to the taxpayer. The statute also charges the legislative auditor, with the assistance of a task force, to develop recommendations on how to improve the process and what type of data and metrics should be included in performance statements.

73 Examples of other types of tax preferences include a business and occupation tax preference on patient lifting devices and sales and use tax preference for field burning equipment.

74 State of Washington Joint Legislative Audit and Review Committee, Tax Preference Performance Review: Beef Processors, see <http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2007/Documents/07-7.pdf>, March 21, 2007.

75 State of Washington Joint Legislative Audit and Review Committee, 2009 Expedited Tax Preference Performance Reviews, January 5, 2010, <http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2009/Documents/09-12.pdf>.

76 State of Washington, Engrossed Substitute Senate Bill 5882, 63rd Legislature.

77 Ibid.

Oregon

In 2009, Oregon enacted sunsets on all individual and corporate income tax credits.⁷⁸ As a result, if a tax credit is to be continued, a bill to renew it must be enacted. To facilitate the process of reviewing each tax credit, each of the credits were put into three categories, where credits in each category will sunset in two-year rolling increments, resulting in each tax credit expiring every six years.

Tax credit sunset process

The sunset policy has resulted in tax credits being reviewed with the same scrutiny as budgetary expenditures. With the new process, revenue forecasts are made under the assumption that expiring tax credits will not be renewed.⁷⁹ Then, the governor's biennial budget recommendation includes a specific budget allocation for tax credits. At the beginning of the legislative session, the Joint Committee on Tax Credits refers tax credits to relevant legislative committees. After each committee considers their selected tax credits and suggests changes, each tax credit is sent back to the Joint Committee on Tax Credits.

Acknowledging that tax expenditures affect the state's budget, the Joint Ways and Means Committee provides the Joint Committee on Tax Credits with a specific target for the total amount that can be allocated toward tax credits. This target setting process encourages the committee to engage with the House and Senate Revenue committee as well as the Joint Ways and Means committee regarding how tax credits should fit into the overall annual budget. The resulting bill may include changes to tax credits or the renewal of tax credits for an additional six years. Tax credits not addressed by the legislature expire at their sunset date.

New statutory changes require the Legislative Revenue Office (LRO) to prepare a report every biennium regarding all tax credits that will expire in the next year, including analyses on the purpose of each tax credit, benefits, outcomes, background, effectiveness, and comparative analyses.⁸⁰ In addition, revenue impact statements on tax expenditures issued by the LRO include cost estimates for six years as well as public policy purpose statements.

78 State of Oregon, House Bill 2067, 2009 Regular Session, see <https://olis.leg.state.or.us/liz/2009R1/Measures/Text/HB2067/Enrolled>.

79 Email communication with Oregon Legislative Revenue Office, November 20, 2013.

80 State of Oregon, House Bill 2002, 77th Legislature, 2013 Session.

Legislative actions on tax credits as a result of the sunset process

The first set of tax credits expired in 2012. During the 2011 legislative session, this first round of 20 tax credits focused on economic development, agriculture, and environmental policy.⁸¹ Ten of these were not renewed, such as tax credits relating to biofuels, water transit vessels, drop donations, reforestation, and workers' compensation insurance. The legislature spent a significant amount of time and resources debating the Business Energy Tax Credit (BETC). The BETC was created in 1979, but its 2007 expansion to encourage development of the state's green manufacturing sector resulted in a \$290 million state fiscal impact. Ultimately, the program's renewable energy credits were reorganized and reduced.

During the 2013 session, the legislature considered 15 credits set to expire in 2014.⁸² Four were allowed to sunset and nine were extended, while two were modified and extended. The BETC's program to support renewable energy equipment manufacturers was one of the credits not renewed. Two of the companies that have received these manufacturing credits have actually experienced financial difficulties, including one that closed its Portland factory and must repay the credits to the state.⁸³ Various proposals to reform the credits have included reducing the overall amount of credit available, changing the number of years the credit can be claimed, and opening the credit up to other manufacturers, rather than focusing just on one industry.⁸⁴

Improving on current practices

Both Washington and Oregon have accomplished what many other states have not even considered undertaking — regularly reviewing and evaluating tax expenditures, including those for economic development. This has resulted in both greater scrutiny and greater transparency of these tax credits. However, the processes in both states are incomplete. For instance, Washington has an evaluation and review process, but unlike Oregon, it does not yet account for tax preferences on both sides of the ledger in its budgeting process.

Washington has an evaluation and review process in place, but the legislature typically does not take action on the Commission and JLARC's recommendations. While a statutory structure for writing purposeful legislation and sunsets on new tax credits was recently enacted into law, old tax credits have no sunset provision. In addition, the new law contains provisions allowing the legislature to pass tax preference bills that do not directly identify the purpose and allowing the state to exempt taxpayers from disclosing tax preference information for "good cause."

Oregon has sunsets, but the evaluation process is still in its infancy. Under the current review process, considerable time is spent determining the purpose of the tax credits set to expire. While this would be a part of the future annual evaluation by the LRO, this process has not been implemented. The LRO reports that this work will require the establishment of a new position at a cost of \$235,000 biennially.⁸⁵ In addition, with a sunset process that is continuing to evolve, tax credits may sunset and then may be reenacted later (although in a different form). This may become confusing for taxpayers, who cannot necessarily plan for the future.

81 Oregon Legislative Revenue Office, Revenue Measures Passed by the 2011 Legislature (Research Report #2-11), see https://www.oregonlegislature.gov/lro/Documents/2011_MeasuresPassed.pdf.

82 Oregon Legislative Revenue Office, Revenue Measures Passed by the 77th Legislature - 2013 Session (Research Report #3-13), see <https://www.oregonlegislature.gov/lro/Documents/RMP%202013%20FINAL.pdf>.

83 Molly Young, "Business Oregon proposes overhaul of multi-million dollar tax credits that helped woo SoloPower, SolarWorld," *The Oregonian*, April 25, 2013.

84 Ibid.

85 Oregon Legislative Revenue Office, Revenue Measures Passed by the 77th Legislature - 2013 Session (Research Report #3-13), see <https://www.oregonlegislature.gov/lro/Documents/RMP%202013%20FINAL.pdf>.



Next steps for metropolitan Chicago

This research was undertaken as a part of the implementation of GO TO 2040 and as a follow up to CMAP's recent industry cluster drill-down reports on freight and manufacturing. GO TO 2040 seeks to maintain and strengthen the region's economic position through a series of specific recommendations. This report's case studies about reorienting economic development align well with the plan's emphasis on strategic planning, pursuing coordinated investments, and improving access to information.

Based on this research, CMAP envisions opportunities for the State of Illinois and metropolitan Chicago to improve upon current economic development practices. Options include implementing more outward-facing metropolitan strategies to better position our economy in the global marketplace. This could be combined with efforts to streamline programs, to coordinate across state and local agencies, and to more prudently apply limited resources. Finally, these opportunities cannot be fully realized without compiling and sharing data to facilitate public input and rigorous program and policy analysis.

In the next phase of this project, CMAP will examine current economic development policies and practices in metropolitan Chicago and Illinois. It will analyze the state's and region's existing challenges, suggesting opportunities for stronger responses to larger economic trends — namely, increased global competition and constrained public resources.



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