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Iowa Gets C-plus

Report: States Lack Sound, Consistent Policies to Enforce Job-Creation and Other Performance Requirements in Economic Development Subsidy Programs

January 18, 2012 — Despite the fact that many economic development deals fall short on job creation or other benefits, states are highly inconsistent in how they monitor, verify and enforce the terms of job subsidies that cost taxpayers billions of dollars per year. Many states fail to even verify that companies receiving subsidies are meeting their job-creation and other commitments, and many more have weak penalty policies for addressing non-compliance.

These are the key findings of *Money-Back Guarantees for Taxpayers: Clawbacks and Other Enforcement Safeguards in State Economic Development Subsidy Programs*, a study published today by Good Jobs First, a non-profit, non-partisan research center based in Washington, DC. The report is a companion to *Money for Something*, a Good Jobs First study issued last month on the performance standards built into subsidy programs. *Money-Back Guarantees* rates states on how well they enforce those standards. Both reports are online at www.goodjobsfirst.org.

On a scale of 0 to 100, Iowa's major subsidy programs receive an average score of 69, giving the state a C-plus grade, but ranking it 5th in the country. Two of the state's major programs score above 90, and the average is brought down mainly by the poor results for the controversial Research Activities Credit, which receives a score of only 18.

“It is not enough for states to have good job-creation and other performance requirements on paper in their subsidy programs; they must also enforce those requirements diligently and consistently,” said Good Jobs First Executive Director Greg LeRoy. “Strong standards and strong enforcement are inseparable in making sure subsidy programs are not mere corporate giveaways,” added Philip Mattera, research director of Good Jobs First and principal author of the report.

“It says a lot about the lack of accountability in subsidy programs nationwide that Iowa's poor score of 69 on a scale of 100 — a C-plus — ranks it in the top five states,” said Peter Fisher, research director of the nonpartisan Iowa Policy Project in Iowa City.

“Iowans would expect better performance from a state agency; they should not accept less when corporations are spending public dollars.

“As Good Jobs First notes, the Research Activities Credit (RAC) already was controversial due to its lack of accountability to Iowa taxpayers. This report raises new issues with the RAC, but state lawmakers have shown little interest in dealing with that runaway tax credit.”

Using a scoring system that combines performance standards and enforcements policies, *Money-Back Guarantees* rates 238 subsidy programs in the 50 states and the District of Columbia (the same sample used in *Money for Something*). The scores of the programs in each state are averaged to provide a state score. The report’s key findings:

- Ninety percent (215 of 238) of the programs require companies receiving subsidies to report to state government agencies on job creation or other outcomes. Yet in 67 (or 31 percent) of those 215 programs, an agency does not independently verify the reported data. The District of Columbia and South Carolina have no performance verification in any of their five major programs examined.
- About three-quarters (178) of the programs contain a penalty provision of some kind, including recapture of benefits already provided and the recalibration or termination of future subsidies. An additional 41 programs are “performance-based,” meaning that the company does not receive benefits until it has satisfied program requirements. But 19 programs (or 8 percent) have little or no recourse against companies that fail to deliver on their job creation and other promises.
- The penalty provisions in 84 of the 178 programs with penalties are weakened by the fact that their implementation is discretionary rather than mandatory or by the presence of various exceptions.
- Disclosure of enforcement data is a prime indicator of whether an agency is serious about dealing with non-compliance. But only 21 programs publish aggregate enforcement data; only 38 programs disclose the names of companies deemed to be out of compliance; and only 14 disclose the names of companies which have been penalized (and the dollar amounts).
- The states with the highest program scores are: Vermont (79), North Carolina (76), Nevada (74) and Maryland (70); those with the lowest averages are: the District of Columbia (4), Alaska (19) and North Dakota (30). Below is a table with each state’s score and rank.
- While every state engages in at least minimal enforcement, practices vary greatly even within many states. Clearly, states know very well how to apply rigorous enforcement techniques but they often fail to do so consistently across their entire portfolio of subsidy programs.

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

To best protect taxpayers, the study recommends:

- All recipients in all programs should be required to report to agencies on job creation, wages, benefits and other performance benchmarks—and those reports should be verified by agencies using techniques including cross-checking of company claims against separate reliable data sources such as unemployment insurance records.
- Agencies should penalize recipients found to be out of compliance, employing techniques such as recapture (clawbacks), recalibration of future benefits and rescission/termination of subsidy agreements. Programs that are performance-based should operate without penalties only if recipients are required to fulfill all programs requirements before receiving any subsidies.
- Penalty systems should be straightforward and consistent and not weakened by subjective exceptions or official discretion on whether to implement them. Agencies should publish detailed online data on their enforcement activities.

**State Enforcement Scoring by Rank and Alphabetically
(Weighted by Performance Standards Score)**

Rank	State	Average	Grade		State	Average	Grade	Rank
1	Vermont	79	B-		Alabama	44	C-	34 (tie)
2	North Carolina	76	B-		Alaska	19	D-	50
3	Nevada	74	B-		Arizona	59	C	12
4	Maryland	70	B-		Arkansas	48	C-	28
5 (tie)	Iowa	69	C+		California	43	C-	36 (tie)
5 (tie)	Virginia	69	C+		Colorado	60	C+	8 (tie)
7	Oklahoma	64	C+		Connecticut	50	C	22
8 (tie)	Colorado	60	C+		Delaware	52	C	18 (tie)
8 (tie)	Kansas	60	C+		District of Columbia	4	D-	51
8 (tie)	Missouri	60	C+		Florida	56	C	14 (tie)
8 (tie)	Wisconsin	60	C+		Georgia	51	C	21
12	Arizona	59	C		Hawaii	37	D+	43 (tie)
13	Rhode Island	57	C		Idaho	42	C-	38 (tie)
14 (tie)	Florida	56	C		Illinois	52	C	18 (tie)
14 (tie)	Nebraska	56	C		Indiana	49	C-	23 (tie)
16	Texas	54	C		Iowa	69	C+	5 (tie)
17	New Jersey	53	C		Kansas	60	C+	8 (tie)
18 (tie)	Delaware	52	C		Kentucky	45	C-	32 (tie)
18 (tie)	Illinois	52	C		Louisiana	46	C-	31
18 (tie)	Michigan	52	C		Maine	40	C-	41
21	Georgia	51	C		Maryland	70	B-	4
22	Connecticut	50	C		Massachusetts	44	C-	34 (tie)
23 (tie)	Indiana	49	C-		Michigan	52	C	18 (tie)
23 (tie)	Minnesota	49	C-		Minnesota	49	C-	23 (tie)
23 (tie)	Mississippi	49	C-		Mississippi	49	C-	23 (tie)
23 (tie)	Ohio	49	C-		Missouri	60	C+	8 (tie)
23 (tie)	Utah	49	C-		Montana	38	D+	42
28	Arkansas	48	C-		Nebraska	56	C	14 (tie)
29 (tie)	Tennessee	47	C-		Nevada	74	B-	3
29 (tie)	West Virginia	47	C-		New Hampshire	45	C-	32 (tie)
31	Louisiana	46	C-		New Jersey	53	C	17
32 (tie)	Kentucky	45	C-		New Mexico	35	D+	45 (tie)
32 (tie)	New Hampshire	45	C-		New York	35	D+	45 (tie)
34 (tie)	Alabama	44	C-		North Carolina	76	B-	2
34 (tie)	Massachusetts	44	C-		North Dakota	30	D+	49
36 (tie)	California	43	C-		Ohio	49	C-	23 (tie)
36 (tie)	Pennsylvania	43	C-		Oklahoma	64	C+	7
38 (tie)	Idaho	42	C-		Oregon	41	C-	40
38 (tie)	South Carolina	42	C-		Pennsylvania	43	C-	36 (tie)
40	Oregon	41	C-		Rhode Island	57	C	13
41	Maine	40	C-		South Carolina	42	C-	38 (tie)
42	Montana	38	D+		South Dakota	34	D+	48
43 (tie)	Hawaii	37	D+		Tennessee	47	C-	29 (tie)
43 (tie)	Washington	37	D+		Texas	54	C	16
45 (tie)	New Mexico	35	D+		Utah	49	C-	23 (tie)
45 (tie)	New York	35	D+		Vermont	79	B-	1
45 (tie)	Wyoming	35	D+		Virginia	69	C+	5 (tie)
48	South Dakota	34	D+		Washington	37	D+	43 (tie)
49	North Dakota	30	D+		West Virginia	47	C-	29 (tie)
50	Alaska	19	D-		Wisconsin	60	C+	8 (tie)
51	District of Columbia	4	D-		Wyoming	35	D+	45 (tie)

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)