

State Economic Development Performance Indicators White Paper

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STATE ECONOMIC DEVELOPMENT PERFORMANCE INDICATORS WHITE PAPER

The goals for economic development have long focused on expanding opportunities for citizens. With greater pressure to demonstrate impact, states have embraced the collection and reporting of performance indicators. However, as the economy continues to change, economic development goals become more nuanced. Consequently, state economic development leaders seek to improve the indicators they use to measure the effectiveness of their incentive programs. This white paper describes common indicators in use, pros and cons of the two most common types of indicators: those representing jobs and investment. The white paper also offers guidance on the process for improving and expanding the slate of indicators states can deploy to evaluate their efforts.

Introduction

As part of its inaugural discussion, participants at the State Economic Development Agency Leaders Workshop (November 2015 in Phoenix, AZ) learned more about the Business Incentives Initiative that CREC conducted with the Pew Charitable Trusts. As follow up, the participating leaders asked for information about the performance indicators peer states use to assess their incentive programs.

In response, CREC sent email requests in December and January to the leaders of the state economic development organizations that participated in the November meeting to request information on program performance indicators in use. CREC facilitated this request by providing each state with a template with program names (from the Council for Community and Economic Research or C2ER State Incentives Database) and asking for input on indicators and activities/milestones used to monitor each of the state's programs. Templates were sent to a sample of 15 states and responses were received from 9 states during the spring of 2016. During a follow-up conversation at a State Economic Development Agency Leaders Workshop (June 2016), participants refined their request. Specifically, state agency leaders from the 19 states participating in that session suggested focusing this analysis on: (1) the most common performance indicators, those associated with jobs and investment, and (2) ideas for identifying potential new measures that might better tell the story about economic development impacts.

Based on the state-provided information, CREC formatted the data from the template into a matrix designed to categorize each program by business need (based on fields from the State Incentives Database) and type of performance indicator employed (based on categories created by CREC). We used these business need and indicator categories to organize the individual program indicators and compare them across states and incentive program purpose.

Business Need Categories	Performance Indicator Categories
Business management	Business growth
Capital access or formation	Earnings (workers)
Facility/site location	Exports
Infrastructure improvement	Jobs
Marketing and sales assistance	Innovation
Product/process improvement	Investment
Tax/regulatory burden reduction	Organizational start-up
Technology and product development	Sustainability
Tourism	
Workforce preparation or development	

State performance indicator characteristics

The nine responding states provided performance indicators for sample of 123 incentive programs that they manage.

Figure 1 shows all incentive programs distributed by category of business need (note that some programs serve multiple needs and were categorized as such). Capital access is the dominant category of business need addressed by these programs.

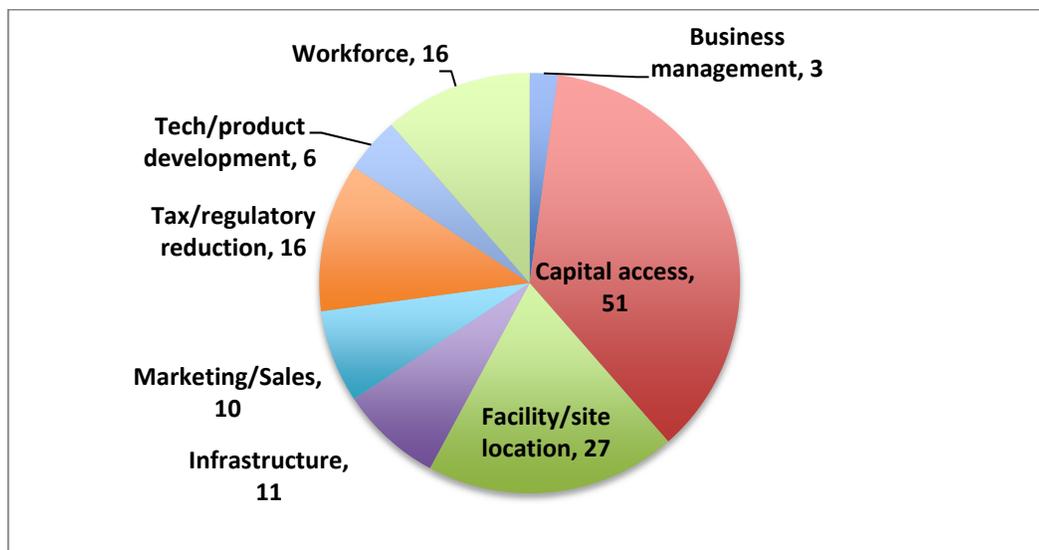


Figure 1: Distribution of Programs by Business Need Being Addressed

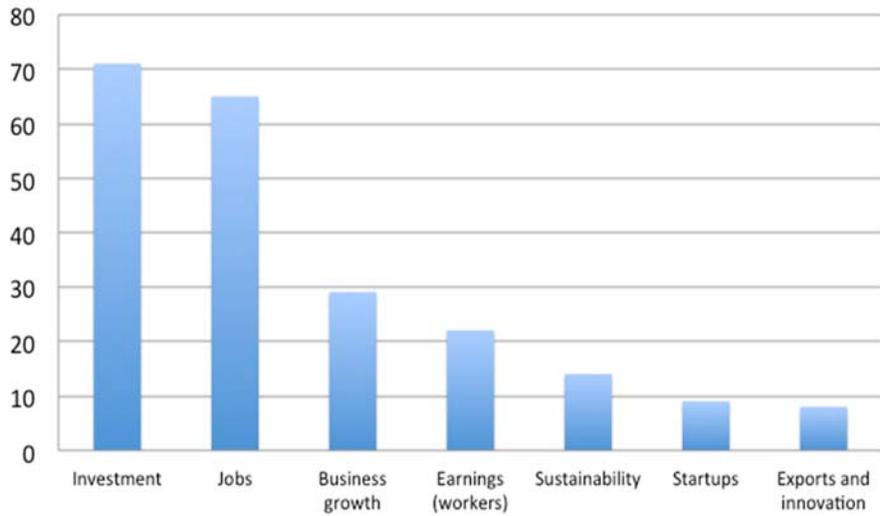


Figure 2: Number of Incentive Programs Using Different Performance Indicators

Investment and jobs are the dominant indicator types across all programs (Figure 2):

Figure 3 shows that jobs and investment are used as performance indicators for programs with a variety of goals and serving many different types of business needs.

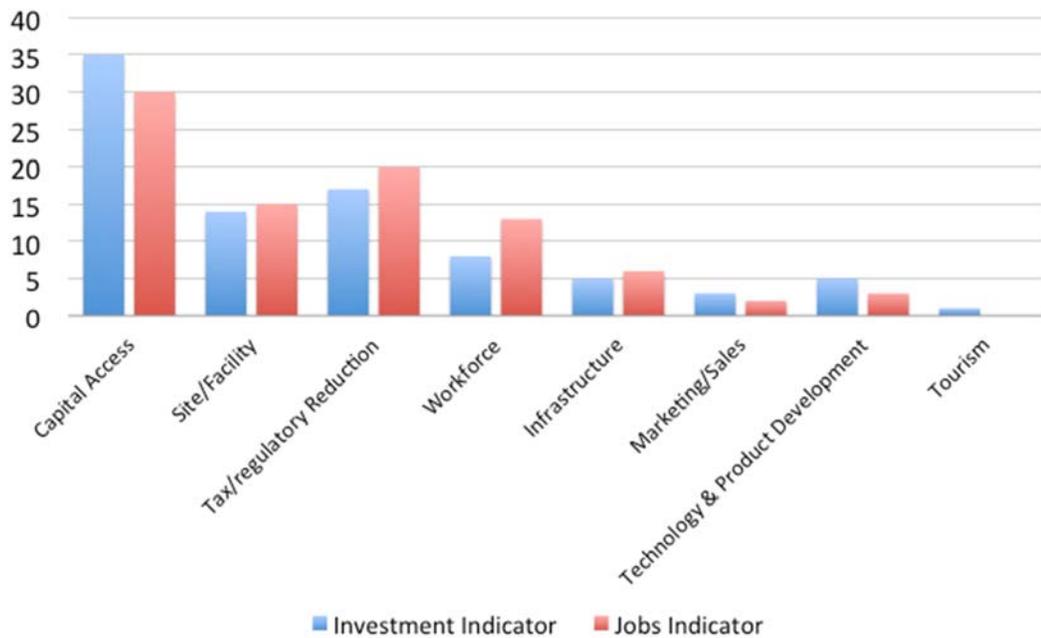


Figure 3: Number of Incentive Programs by Type

In a few cases, such as capital access and technology programs, investment indicators are used more often than jobs indicators. At the same time, jobs indicators are widely utilized for almost all other types of programs including site/facility, tax/regulatory reduction, workforce and infrastructure programs.

Common challenges with indicators

State economic development leaders asked for information on performance indicators used by their peers because they are not fully satisfied with how the most common metrics – jobs and investment – convey what incentive programs are achieving. The causes of dissatisfaction with these metrics include:

1. Jobs and investment may not be appropriate indicators for all types of incentive programs given their various objectives and the business needs they are intended to address.
2. Common terms like “jobs” and “investment” may not be clearly defined or are not consistently applied across programs within (let alone across) states, hindering efforts to aggregate data into good-quality reporting of the full portfolio of outcomes.
3. Many other indicators identified are useful in providing insights about an individual program’s outputs, but they are not as useful in telling the broader story of economic development outcomes.

Jobs Indicators

While every state counts jobs, each does it differently. Even within states, some programs emphasize job creation or new jobs, while others (1) include retained or existing jobs, (2) tally jobs for specified segments of the population, or (3) count jobs meeting criteria such as above average wage levels. States also have different ways of determining what is a new job or defining full-time employment. Furthermore, the jobs are sometimes counted based on projections from companies applying for assistance while in other cases they may be counted and verified before the incentive is actually paid out.

Our work with the Business Incentives Initiative and ongoing program evaluation efforts have led us to offer the following suggestions for making job counts a more effective metric for state incentive programs. A robust jobs indicator should:

- Include a clear definition of jobs or new jobs. Most states prefer to count new, full-time employment, and the definition should explain exactly what constitutes a new full-time job and describe how part-time or seasonal employment will be addressed.
- Establish a baseline or otherwise set clear guidelines about when counting will occur, including the start and end dates.
- Distinguish between new jobs and existing/retained jobs.
- Address the issue of job counts when companies have multiple sites within the state.

- Allow few exceptions to the rules.
- Incorporate some measure of job quality, such as industry category, average wage, or geographic location.
- Explain reporting and verification procedures.

Virginia and California provide two good examples of “new jobs” definitions that meet many of these principles:

Virginia

“New job” means new permanent, full-time employment of an indefinite duration, created on or after a certain date (defined by the program) as the direct result of the private investment, for which the Company provides an average (hourly or annual) wage of at least a minimum set by the state and provides standard fringe benefits for its employee, requiring a minimum of either (i) 35 hours of the employee’s time a week for the entire normal year of the firm’s operations, which “normal year” shall consist of at least 48 weeks, or (ii) 1,680 hours per year. Seasonal or temporary positions, positions created when a job function is shifted from an existing location in the Commonwealth to the location of the economic development project, positions with suppliers and multiplier or spin-off jobs shall not qualify as new jobs. The term “new job” may include positions with contractors provided that all requirements included within the definition of the term are met.

The Grantor may verify new jobs through a Company survey, data from the Virginia Employment Commission, and /or other methods as appropriate. The Company should understand that the information provided to the Grantor will be verified by the Grantor with the Virginia Employment Commission.

California

The California Competes Tax Credit program is another good example. It seeks to “determine the applicant’s net increase of California full-time employees determined by an annual full-time equivalent calculation, compared to the number of California full-time employees employed by the applicant in its base year, also determined by an annual full-time equivalent calculation.”

In this case, a full-time employee is “an individual that is paid wages for services in California of not less than an average of 35 hours per week.” A full-time equivalent means “the total number of hours worked for the applicant by the employee during the taxable year, not to exceed 1,750 hours per employee, divided by 1,750” or “the total number of weeks worked by the applicant by the employee during the taxable year, not to exceed 50, divided by 50” for salaried employees. The base year “is the applicant’s taxable year immediately before the applicant’s taxable year in which the application is submitted.”

The application for the tax credit also takes into consideration multiple other factors, including wages, benefits, and geographic location of the investment.

Companies report jobs data annually. The California Franchise Tax Board has access to the application and all documentation and will review records for compliance.

Investment

Investment is the other dominant metric for state incentive programs. The use of “investment” as an indicator category can be problematic because it includes many different types of metrics across programs serving multiple business needs. While they are all “investments,” these individual indicators may actually refer to:

- total capital investment made by a company for a project in the state, often but not always measured by taxable real or personal property;
- a loan or equity investment made to benefit a small business;
- spending to redevelop a brownfield site; or
- total state assistance provided to a project.

Notwithstanding that issue, leverage ratio was the most common metric in the category and, it turns out, suffered from the same faults as overall investment as an indicator. Leverage ratio is used as an indicator for brownfield and enterprise zone programs, small business support programs, tourism promotion, angel investments, and incentives for business retention and attraction among the respondent states. Leverage and investment certainly have different meanings across these disparate programs, and the desired leverage ratio varied widely as well – from 1.1 to 60.1.

The State Small Business Credit Initiative (SSBCI) definition of leverage ratio is used by many state programs, which is not surprising since capital access is the largest incentive program category among the responding states. The SSBCI leverage ratio definition is “the private financing caused by and resulting from the investment, divided by the [public program] funds used.” It is notable that SSBCI does not count recycled funds as additional program funds used, so by reusing repaid funds for additional lending or equity investment, states can increase their leverage ratio. The goal is to use a specified amount of public funds to generate new private capital investment in beneficial companies or projects.

In other programs, states may report a simple calculation of total project cost less state assistance, resulting in the amount leveraged. Other states do not explicitly define the term. In all cases, however, the private investment that was spurred by the state intervention relative to either the total investment or the state investment is the metric of interest.

Leverage ratio is a good metric for programs in which the purpose is to expand access to capital, such as those designed to steer funds to small businesses and technology start-ups, because it directly measures what the state is trying to achieve. For other programs, such as

business attraction or community development programs, leverage ratio is a useful internal program indicator, but it does not convey insight about economic development outcomes for the state. It leaves unanswered questions about the character, quality and impact of the investment and whether it was a good use of public funds to spur that investment at all.

Other indicators

States also use a variety of other indicators beyond the dominant jobs and investment metrics. As requested by the roundtable participants, here we highlight metrics beyond job counts and investment in use in the sustainability, worker earnings (to signify job quality), and entrepreneurship and innovation categories.

Sustainability

- Workforce training
- Vacant buildings rehabilitated
- Tax credits reserved or issued
- Federal tax credit applications (\$)
- Acres of land remediated
- Brownfields redeveloped
- GDP impact
- Number of projects
- Communities assisted

Worker Earnings

- Fringe benefits provided
- Jobs with above average county wage
- Average salary increase
- Average wage of new jobs
- Total new payroll
- Fund to wage increase ratio

Entrepreneurship and Innovation

- Targeted job creation (e.g., in high tech sectors)
- Company creation or business start-ups
- Intellectual property generation and industry advancement
- Projects funded or awards made
- Businesses assisted
- Number of minority or women owned businesses assisted

Guidelines for selecting indicators

Performance indicators should help states understand whether their programs are working well to achieve their economic development goals. Three steps states can take to select appropriate indicators to evaluate program performance are:

Start with the big picture

A clear goal or performance statement is the foundation of good evaluations, not to mention effective program management. A surprising number of state incentive programs have vague statutory objectives that cannot be measured or assessed. Economic development organizations may also exist to achieve goals such as providing a suitable business climate and helping businesses overcome barriers to growth, which might indirectly generate an economic impact but can be difficult to quantify. States are increasingly making sure that economic development incentive programs include a statement of purpose and expectations for outcomes in order to facilitate evaluation.

Align indicators with program goals

For program evaluation purposes, it is important to distinguish between indicators that describe outputs (activities or deliverables) and those that describe outcomes (measures tied to program purpose). Evaluation indicators should focus on outcomes, but often the challenge is that the investment being made is not expected to lead directly to an outcome. In these cases, logic models that make explicit the steps that occur between the policy and the hoped for outcome can help identify appropriate evaluation measures.

Consider data sources and availability

Determine data sources and availability when selecting metrics to make sure data collection does not require time or money beyond your organization's means. Data options should also be reviewed to assess the quality and validity for evaluation purposes. If indicator information will be collected from incentive recipients, define in advance how this data will be collected, verified, and reported in a pragmatic way that will meet the needs of economic development managers and oversight entities.

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