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**Testimony of Shane Benz
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**Senate Standing Committee on Finance
Senate Standing Committee on Commerce, Economic Development and Small Business
Senate Standing Committee on Investigations and Governmental Operations
January 14, 2022**

Chairpersons Krueger, Kaplan, and Skoufis, and members of your respective committees, thank you for the invitation to testify today. My name is Shane Benz and I'm a researcher with The Pew Charitable Trusts' state fiscal health project. Pew is a nonpartisan research and public policy nonprofit that provides research and technical assistance to state policymakers to help them make evidence-based decisions across a wide range of policy issues.

Today I will provide a brief overview of the national landscape of state tax incentive evaluations and how states have used evaluations to inform policy discussions. Our work on tax incentives began in 2012 and helps states improve the effectiveness of their economic development tax incentive programs by implementing rigorous evaluation processes.

Pew doesn't take a position on whether incentives are good or bad. Our focus is on helping states use high-quality and objective analysis to inform policy discussions about incentives. We do this by helping states design processes to regularly evaluate their tax incentives and by sharing research on ways to increase the effectiveness of incentives.

When we began this work nearly 10 years ago, only a small number of states required ongoing incentive evaluations. Today, over 30 states regularly review these programs. Many of New York's neighbors have implemented evaluation processes, including Connecticut, Maine, Massachusetts, Pennsylvania, and Rhode Island. New Jersey is making progress as the state has recently enacted evaluation requirements for some of its newest programs. New York City has also implemented a review process and has produced several high-quality analyses.

Most states employ incentives to encourage a wide variety of activities, including economic development. However, policymakers historically had little information about whether incentive programs were meeting their objectives. Additionally, their costs are often hard to estimate and forecast. Finally, tax incentives are not normally part of a budget process like most other spending. This means most states do not have a mechanism to reassess spending on tax incentives.

Policymakers have therefore called for more and better information about how these incentives are performing, and whether their benefits are worth the costs. High-quality reviews can help identify whether these programs are performing as expected. If they aren't working well, evaluations can help states decide whether they should make changes to increase their effectiveness, repeal old or



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State Tax Incentive Evaluations

New York Senate Joint Committee Hearing

Shane Benz

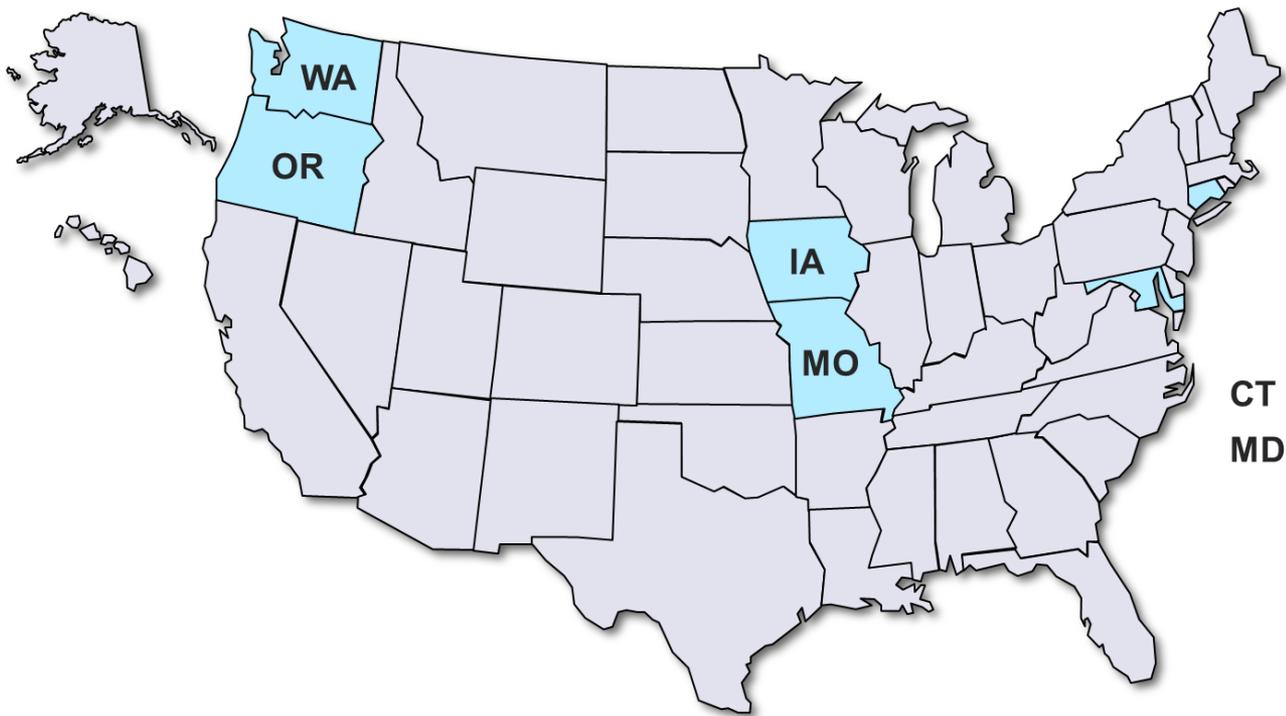
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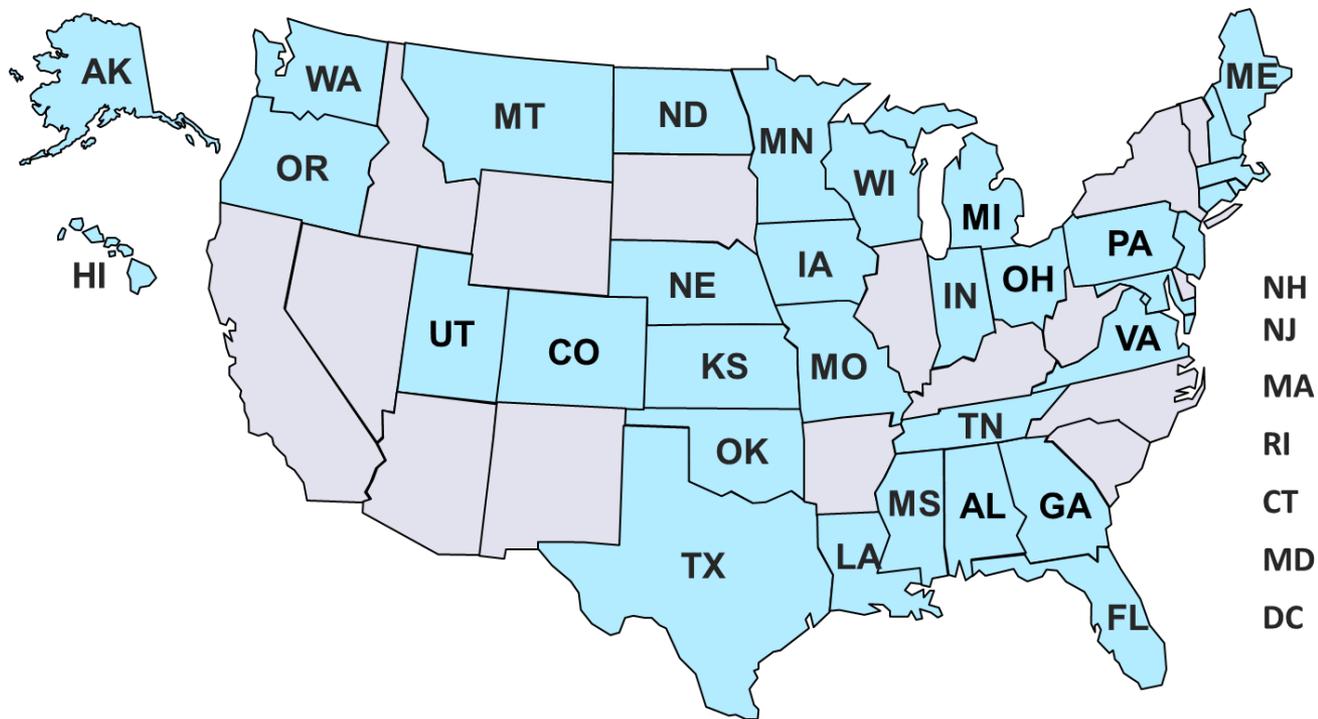
Pew's tax incentives work helps states:

- Design and administer effective incentives
- Improve programs with regular and rigorous evaluation processes
- Inform policy discussions

Evaluation landscape: Pre-2013



Fast-forward ten years...



Why are more states evaluating incentives?

- Lack of information about program effectiveness
- Costs are challenging to estimate/forecast
- Incentives are not normally part of the budget process

Evaluations yield key insights

- What programs are working well
- Changes to increase return on investment
- Repeal or replace ineffective/obsolete programs
- Assess whether programs are meeting target beneficiary needs

High-quality evaluation processes include:

- Well designed plans for regular evaluations
- In-depth assessments from nonpartisan experts
- Clear connections to the policymaking process

Policy change puts the “valu(e)” in evaluation

- **New Jersey:** Fiscal protections and up-to-date information
- **Pennsylvania:** Incentive redesign to align with legislative intent



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Questions?

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outdated programs, or replace them with ones that are more aligned with current economic development objectives. Evaluations can also help policymakers understand whether their programs are reaching those they intend to help.

Our research shows that high-quality evaluation processes often consist of three components, including a well-designed plan to regularly evaluate incentives, in-depth assessments by non-partisan, objective analysts on the extent to which incentives influence business behavior, and a clear connection to the policymaking process, such as through committee hearings.

New York City's evaluation process checks many of these boxes. In 2017, policymakers directed the Independent Budget Office to evaluate the city's economic development tax expenditures based on a schedule determined collaboratively by IBO and the council. The IBO has produced two evaluations under this law and presented its findings before the city council's committee on finance. City and state policymakers will need to coordinate on legislation if the city identifies needs for policy changes as a result of these evaluations.

Our work with cities and states over the past decade has shown that, when equipped with information from tax incentive evaluations, policymakers use it. For example, after years of debate New Jersey replaced two flagship economic development incentives in 2020 with programs whose designs were informed by one-time evaluations.

The new programs include annual award limits – or caps – on how much the programs can cost over a seven-year period. Additionally, the largest incentives must now be independently reviewed on a biennial basis to provide analysis of their effectiveness.

In Pennsylvania, lawmakers converted the state's broadband tax credit into a competitive grant based on recommendations from an evaluation by the state's Independent Fiscal Office. The IFO presented these findings directly to lawmakers in the state's Performance Based Budget Committee, which holds hearings to review the office's statutorily required reviews. The new grant program is better aligned with legislative intent by setting higher service standards and gives the state more control over who receives funding.

These are just a few of a growing number of policy changes informed by high quality evaluations. States across the country are using tax incentive evaluations to better align programs with economic development objectives and to make the most effective use of limited tax dollars.

Pew is happy to serve the committees as a resource for state tax incentive evaluations moving forward, and can provide additional information about effective strategies for incentive design and review.

Thank you for your time. I am happy to answer any questions the committee members may have.