



To: Chairwoman Candaras, Chairman Joseph Wagner, and members of the Joint Committee on Economic Development and Emerging Technologies
Fr: Deirdre Cummings, Legislative Director, MASSPIRG
Dt: 4.11.2013

Testimony in favor of *An Act to Promote Efficiency and Transparency in Economic Development*, S.173/H.325 and an Act Relative to Transparency of Economic Development Spending S.174/H.324

MASSPIRG is a statewide non-profit, non-partisan, member-supported public interest organization. Thank you for the opportunity to testify today in favor of [*An Act to Promote Efficiency and Transparency in Economic Development*](#), S.173/H.325 and an [*Act Relative to Transparency of Economic Development Spending*](#) S.174/H.324 filed by Representative Carl Sciortino and Senator Eldridge along with 25 other cosponsors – both Democrats and Republicans.

First, I want to thank the chairs and members of the committee for passing [critical transparency reforms](#) in June of 2010. The new law required the development of a comprehensive state budget website, detailed to checkbook level, which also includes the amount and names of the companies who receive refundable or resalable tax credits. The tax subsidy information was made available last year. As a matter of fact, as a result of these laws – MASSPIRG awarded the state a grade of an A- for level and comprehensiveness of state spending transparency. This is a significant improvement from the F awarded in 2010.

The ability to see how government uses the public purse is fundamental to democracy. Transparency in all government spending checks corruption, bolsters public confidence, and promotes fiscal responsibility.

Last month MASSPIRG released a new report called [“Getting our Money’s Worth? Promoting Transparency and Accountability for Corporate Tax Subsidies in Massachusetts.”](#)

This report provides analysis of Massachusetts’ special business tax breaks and finds taxpayer dollars are being put at risk due to a lack of accountability measures in many programs. We analyzed 25 special business tax breaks worth a total of \$770 million and found that many tax subsidy programs lack adequate accountability measures, like goals for job creation, recapture measures requiring companies to return subsidies when they fail to deliver promised benefits, sunset dates for subsidy programs, and adequate public transparency and reporting to enable independent assessment.

Massachusetts is a national leader in making many forms of state spending transparent, yet many of our corporate subsidy programs put taxpayer money at risk for waste due to a lack of openness

and accountability. As you can see in our attached report, the findings in our study echo many of the reforms called for by last year's Tax Expenditure Commission.

We reviewed "special business tax subsidies," which are deductions, credits, exemptions or other tax treatment specifically designed and enacted by the legislature to spark economic growth. Since fiscal year 1996, tax subsidies have more than doubled in value to \$770 million. In fact, growth of special business tax subsidies as a share of the state economy outpaced all other major areas of state spending since 1996. Given the enormous growth of these tax subsidies, accountability to taxpayers is critical.

While some spending through tax expenditures is more transparent and accountable than it was a few years ago, the Commonwealth still lacks important tools to ensure state spending goes to programs that yield the best results. Specifically,

- Few of the Commonwealth's special business tax subsidies have well-articulated public policy objectives.
- A lack of clearly defined goals for subsidy programs limits the ability of the Commonwealth to impose money-back guarantees, known as "clawback" provisions. Only nine of the 25 active special business tax breaks currently have such provisions in place. Where clawback provisions do exist, they are not as clear or demanding as they should be.
- Fewer than one-third of the Commonwealth's special business tax subsidies (7 of 25) are subject to annual spending limits.
- Only eight of Massachusetts' 25 special business tax subsidies require the Legislature to actively renew the program, meaning that the other 17 continue regardless of their merit.
- Important information is scattered across different reports and online databases.
- Nearly half of all special business tax subsidy programs fail to publicly disclose one or more of the following pieces of information: recipients, subsidized projects, project-by-project or program-wide cost to the state budget, or results generated by the program.
- With the exception of the film industry and life sciences industry tax credits, no publicly available evaluations of after-the-fact cost-effectiveness exist for special business tax subsidies. Bay Staters lack tools to easily discern when the state has recaptured subsidies from companies that fail to deliver on promises. A dearth of information on costs and benefits means that Bay Staters cannot weigh in on the merits of particular subsidy programs before they are renewed.

Despite some steps in the right direction, the Commonwealth does not yet meet the best practices of accountability and transparency for \$770 million in state spending through the tax code.

To make the special business tax subsidies fully accountable, the state should:

- Transition away from discretionarily awarded tax subsidies to a system of direct grants, improving the transparency, accountability and efficiency of economic development subsidies.

- Set clear and measurable public policy goals for each subsidy program and require that proposals for new breaks include a clear policy purpose.
- Mandate periodic review of all tax subsidies and require them to expire in the absence of active decisions to renew based on the review.
- Cap the cost of each subsidy program, protecting the Commonwealth and its citizens from runaway costs.
- Define strong and clear clawback provisions to recoup tax subsidies from companies that fail to meet their programmatic goals wherever practical.
- Continue to improve public disclosure of information – including information on each subsidy program’s purpose, progress toward the policy’s goal, total annual cost, expiration date, clawback statistics, and names of beneficiaries – on the state’s transparency website. Users should have the ability to “drill down” to see details about the monetary value of each business’ tax subsidy, the intended benefit for the state (number and quality of jobs, volume of sales and so on), the recipients’ performance relative to targets, and any instance in which the state gets its money back due to a recipient’s failure to deliver on promises.

An Act to Promote Efficiency and Transparency in Economic Development S 173/H325 will make spending through the tax code more transparent and efficient by adopting many of the best practices called for above and in the findings of last year’s tax expenditure commission.

Specifically, this bill would require that all economic development tax breaks on both the state and local level be transparent and posted on the state budget website; require improved reporting data to evaluate the success of the investments; require economic development tax expenditure program to be affirmatively reviewed and reauthorized after 5 years; and set standards for successful economic development programs and hold companies accountable to their job creation commitments by requiring companies to pay back the value of the tax break if they fail to meet their promised commitments.

Specifically, the bill would:

Require uniform data collection

Uniform reporting requirements would mean that every economic development program funded by the state or a municipality would have the same data reporting requirements. Applicants would have to document their current in-state employment levels, salary and benefit structure to establish an objective benchmark from which to measure gains.

- All proposals for assistance must include benchmark summaries of:
 - The number of jobs prior to receiving assistance
 - Benefit levels (e.g. health insurance) provided current employees
 - Salary scale of current employees
- Also required is a summary of proposed benefits to the Commonwealth:

- Number of new jobs to be created
- Benefit levels for these new jobs
- Wages scale for new jobs
- Requires recipients to report on results annually for the life of the subsidy.
- Requires all economic development applicants to report all development subsidies received by state or local agencies
- Requires all discretionary tax credit programs to expire after 5 years unless reauthorized by the legislature

Provide transparency

- Requires EOEHD to make all applications and reporting materials available to the public.
- DOR and EOEHD reports and supporting materials (applications, etc.) must be posted on the web in a searchable, easy to use format.
- Requires applicants for economic development subsidies to disclose all other subsidies received for each project.

Establishes standards and requires claw-backs when benefits are not met

- If a company fails to meet 90% of its job creation commitments within two years, the state will be required to recapture (“claw-back”) a pro-rated portion of the subsidy.
- Wages must remain at or above 85% of average wage for the industry and region (75% for small businesses). If taxpayers are going to subsidize jobs with public dollars, they shouldn’t be eroding community standards through those investments.
- The subsidy per permanent, full-time job may not exceed \$35,000, which is the limit set for job creation when applying for federal Community Development Block Grants.
- Section 12 empowers the Executive Office of Economic Development to waive the subsidy limit and job standards upon finding that there exist significant public policy goals apart from job creation. The policy goals would have to be explicitly stated and become the basis of annual progress reports.

An Act Relative to Transparency of Economic Development Spending SB174/HB324 requires the Department of Revenue (DOR) to present the total picture of all economic developments spending – by both the state and by cities and towns in one unified budget on the state spending website enabling a more comprehensive and holistic view of economic development investments. Specifically, the bill;

- Requires the DOR to produce an annual unified economic development budget
 - Detailing tax reductions, tax credits and subsidies for economic development
 - Including all line item expenditures for any state-funded entity including quasi-public authorities
 - Local property tax abatements and reductions also included

The strong disclosure requirements will bring Massachusetts more in line with states such as Connecticut, Maine, Maryland, Ohio, Pennsylvania, New Jersey, New York, and Rhode Island that already have similar provisions in place.

Spending through the tax code merits particular attention because it is not subject to the normal, annual public scrutiny of other line-item spending in the state budget. Unlike conventional budget items, the annual cost of such spending may not be known until after the money is spent. And because programs are often automatically renewed each year, they can continue to impose costs on the Commonwealth without undergoing thorough consideration and annual approval by the Legislature and Governor.

Whether in good times or bad, Bay Staters need to be confident in our investments and with meaningful, comprehensive transparency should be able to fully participate in decisions and discussions about state and local budgets and priorities.

I hope you will report these bills favorably from your committee.