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**Testimony of Chaaron Pearson, The Pew Charitable Trusts
In Support of House Bill 6052
May 23, 2018**

Chairman Albert and Members of the Committee:

Good afternoon and thank you very much for the opportunity to testify today. My name is Chaaron Pearson and I am a senior researcher with The Pew Charitable Trusts' economic development incentives project.

Pew is a non-partisan public charity that engages in research and technical assistance at the local, state, and federal levels. We have been doing research on economic development incentive evaluations since 2012.

Our project helps cities and states make evidence-based reforms to their economic development incentives. To accomplish this, our research shows that one of the most important steps a state can take is to set up a process for regular, rigorous evaluation of incentives.

As lawmakers across the country look for ways to create jobs, raise wages, and help local economies thrive, incentives are among the primary tools used to achieve these economic development goals. They also collectively cost governments many billions of dollars per year. Regular evaluation is a proven way to ensure that incentive programs are successfully serving the needs of states' budgets, economies, and taxpayers.

Nearly 30 states, including your neighbors – Indiana, Ohio, and Wisconsin – have enacted laws either requiring evaluation of tax incentives or improving existing evaluation processes. The resulting evaluations have provided reliable information on the economic and fiscal impacts of incentives, including the extent to which they're successfully influencing business behavior, and their effects on state budgets. These studies have also uncovered flaws in the design or administration of incentives, and have recommended improvements.

Currently, Michigan lacks a process for regularly evaluating incentives, but House Bill 6052 would change that. I'm going to discuss some of the ways that HB 6052 aligns with Pew's



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research, and with strategies that other states are using. First, under HB 6052, all economic development incentive programs would be evaluated, including both tax incentives and cash incentives such as grants and loans. The resulting reports would provide Michigan lawmakers with important information on the results of a range of incentives, helping you invest in the ones that get the best results. This scope mirrors the approach used in other states, including Florida, Oklahoma, and Virginia – all of which are national leaders in tax incentive evaluation.

In order to produce an informed and impartial judgment on the results of economic development incentive programs, our research shows that evaluators selected to evaluate tax incentives should have a non-partisan perspective, relevant expertise in fiscal analysis and program evaluation, and an ability to draw policy-relevant conclusions. States such as Mississippi, Oklahoma, Virginia, and Tennessee have had success contracting out evaluations to private consultants or academic institutions as proposed in HB 6052. This can be an effective approach for ensuring the evaluators have necessary technical expertise and independence.

Next, most state evaluation processes study economic development incentives on a three to six-year cycle, so the four and six-year cycle proposed in HB 6052 fits within that standard range. Our research shows that a rotating cycle of this length strikes an appropriate balance of allowing both evaluators and legislators to focus in depth on a subset of incentives every year, while still ensuring that lawmakers regularly receive information on all major incentives.

Finally, the bill provides that the chosen evaluator should include – to the extent practicable – an analysis of a number of factors, including: each incentive program's goals; an estimate of incentives' economic and fiscal impacts; the extent to which incentives influence business behavior; an assessment of whether adequate protections are in place to ensure that the fiscal impact of the incentive does not increase substantially beyond the state's means or expectations in future years; and an assessment of whether the incentive is achieving its goals. These criteria for the evaluation strike a balance between ensuring that Michigan's studies are consistently high-quality, and also offering the evaluator some degree of flexibility to provide the information that is most relevant for each incentive.

In almost every case, evaluation legislation has received strong bipartisan support across the country. These bills have also brought together supporters and skeptics of incentives alike, who agree on the need for better information. The objective of evaluation is not to scrutinize individual companies or to second guess past decisions. On the contrary, the goal is to provide



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lawmakers with the information they need to design incentive programs and policies that will best serve the state economy going forward.

Once this information is available, lawmakers in states such as Florida, Indiana, Maryland, Missouri, North Dakota, and Oklahoma, have used it to make policy decisions. They have expanded and extended incentives that are working well and reformed or ended those that are not, leading to better outcomes for businesses, workers, and the state budget. By regularly evaluating tax incentives, Michigan can achieve similar results.

Thank you for your time and attention, and I'm happy to answer any questions.

