A Performance Audit of GOED’s Corporate Incentives Program

October 14, 2014

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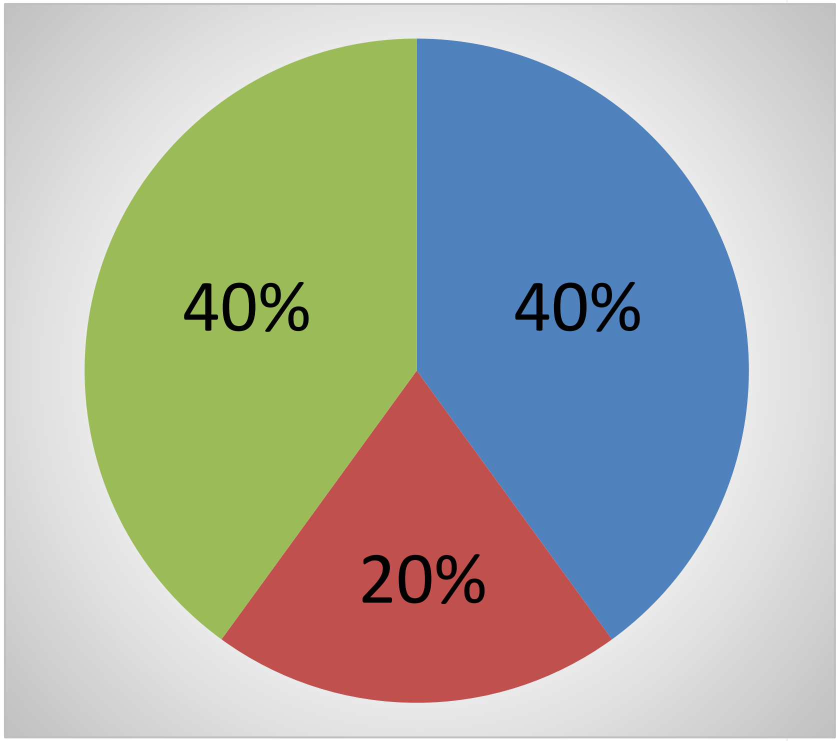
Why We Did This Audit

- The significant amount of tax revenue that GOED has the ability to commit through the corporate incentives program
- Stakeholder concerns over a lack of transparency at GOED
  - Budget forecasting
  - Financial reporting
  - Audit review

EDTIF Background

- Economic Development Tax Increment Financing (EDTIF)
- EDTIF award: up to 30% of new state revenue for as long as 20 years
- EDTIF includes
  - Corporate Income Tax
  - Corporate Sales and Use Tax
  - Individual Employee Withholdings



For additional information, see Report pp. 65-66.

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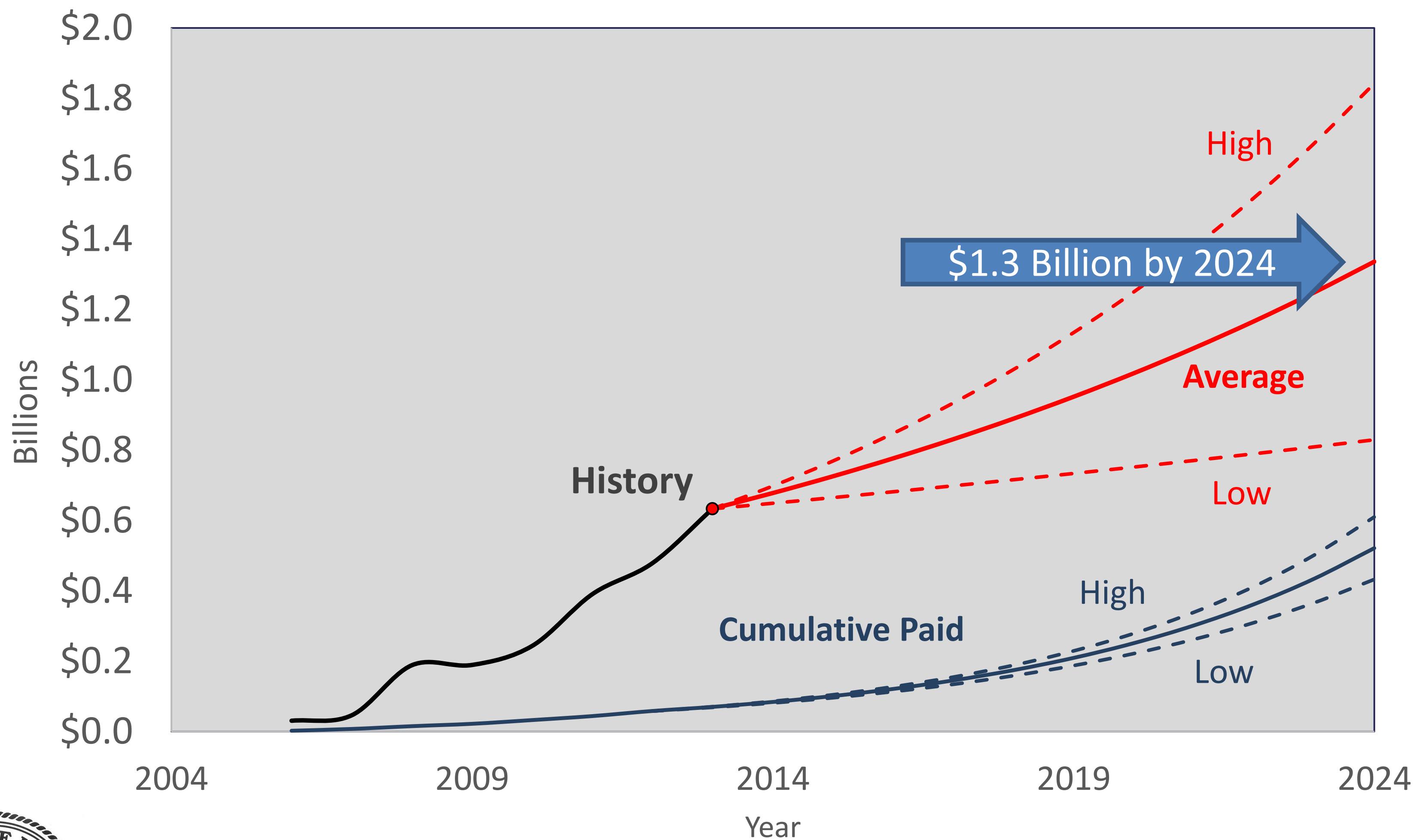
Economic Development Incentives Act

- To receive an EDTIF the proposed new commercial project must:
  - be in an economic development zone;
  - include direct investment within the geographic boundaries of the development zone;
  - bring new incremental jobs to Utah;
  - generate new state revenues;
  - meet the requirements of the post-performance review and verification process, as outlined in Section 63M-1-2405; and
  - include significant capital investment, the creation of high paying jobs, or significant purchases from Utah vendors and providers, or any combination of these three economic factors.

Economic Development Incentives Act

- High Paying Jobs:
  - The Legislature found that "economic development initiatives and interests of state and local economic development officials should be aligned and united in the *creation of higher paying jobs that will* ***lift the wage levels*** of the communities in which those jobs will be created." Utah Code 63M-1-2402(1)(c)
  - The EDTIF statute defines "high paying jobs" as employment positions with annual wages that "***compare favorably against the average wage*** of a community in which the employment positions will be created." Utah Code 63M-1-2403(4)(a)
  - Note: We understand "wages" to reflect wages entered into Box 1 on an IRS Form W-2 (aka W-2 wages).

EDTIF Long-Term Commitment



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For additional information, see Report pp. 61-62.

Concern 1

1. GOED Gradually Reduced Corporate Incentive Requirements
2. Insufficient Post-Performance Controls Led to Questionable Incentive Awards
3. Inadequate Oversight Limits Corporate Incentives Accountability

GOED Gradually Reduced Corporate Incentive Requirements

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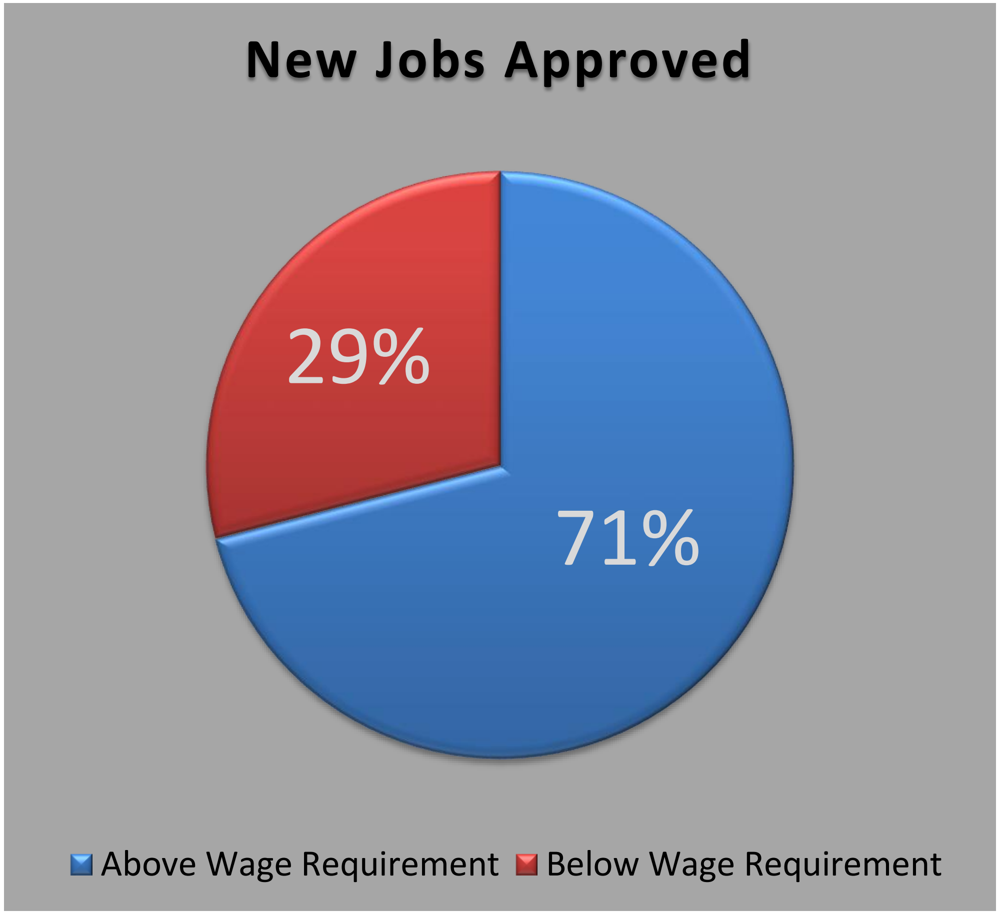
For additional information, see Report p. 29.

GOED Incents Jobs that Pay Below the Wage Requirement



- 29% of new jobs project to pay **below** contractual wage requirements
- 85% of GOED's 2013 press releases misrepresent company wage estimates

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For additional information, see Report pp. 33-34, 55-58.

GOED Inflates Wages by Including Health Benefits

- GOED started including health benefits in 2010
- Health benefits are not included in the DWS wage threshold
- Companies can claim any amount for health benefits and GOED does not verify the claim

Company	Contractual Wage Requirement	Projected Avg. Company Wages	% of Projected Avg. Wage Requirement	Projected Avg. Company Wage w/ Health Benefits	% of Projected Avg. Wage Requirement w/ Benefits
Company G	$56,000	$48,000	85.7%	$60,000	107.1%
Company H	$55,000	$44,000	78.6%	$56,000	100.0%

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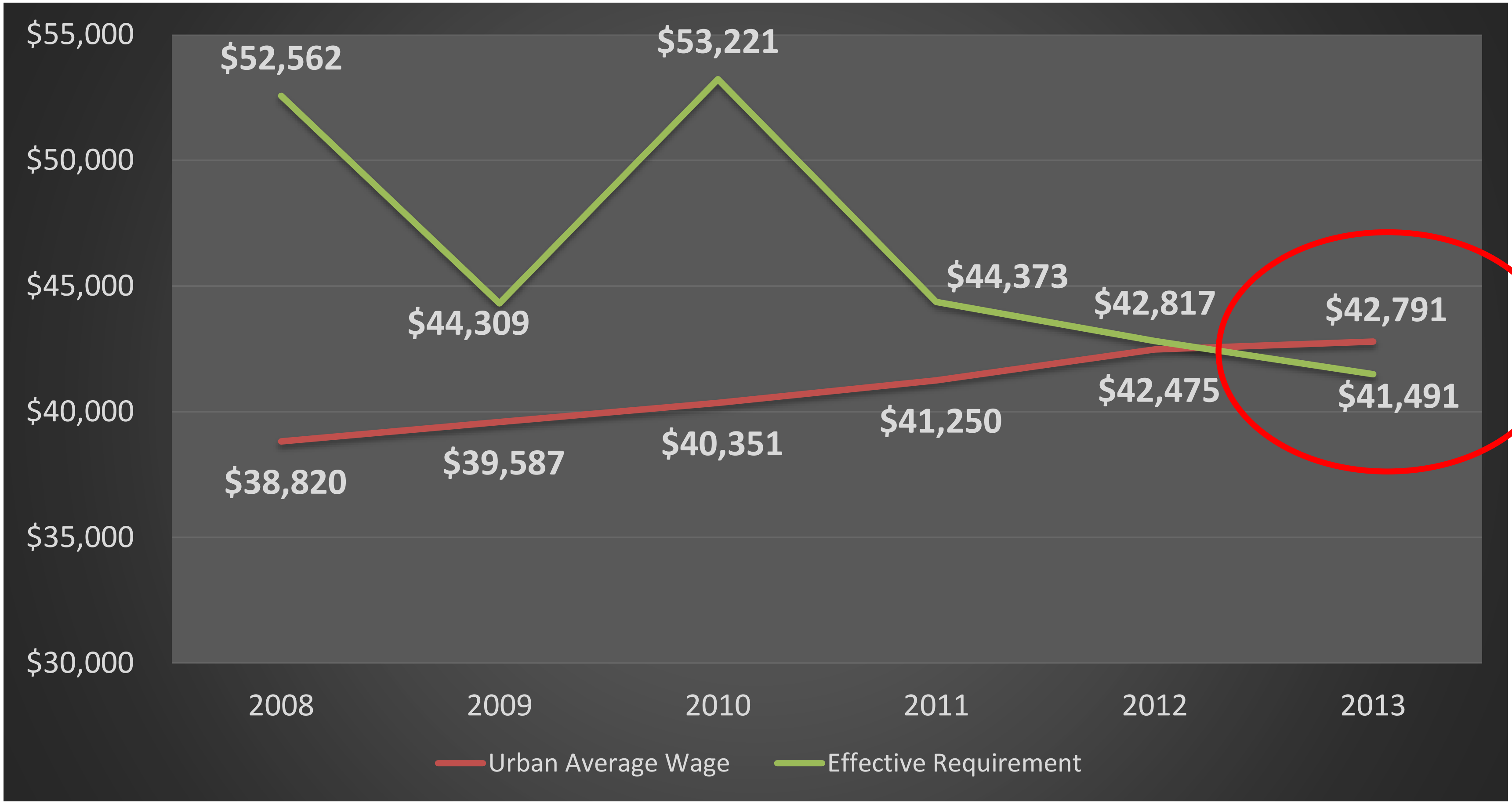
For additional information, see Report p. 35.

GOED's Effective Wage Requirement for Incentive Awards Decreased While the County Average Wage Increased



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For additional information, see Report p. 30.

Key Recommendations

1. The Legislature should clearly define the minimum threshold newly created high paying jobs must meet to receive a corporate incentive award.

2. GOED should use equivalent metrics to assess company compensation with the average county compensation.

3. GOED should not incent jobs that pay below the average community wage.

Concern 2

1. GOED Gradually Reduced Corporate Incentive Requirements Since 2008
2. Insufficient Post-Performance Controls Led to Questionable Incentive Awards
3. Inadequate Oversight Limits Corporate Incentives Accountability

GOED Uses Inconsistent Techniques to Review Company Performance

- GOED includes *existing* company employees to calculate the average company wage of the "new" employees to corporate incentive award
- GOED removes low paying jobs from the average to boost the company salaries
- GOED allows some companies to count 3rd party contractors as "new employee" jobs
- GOED allows some companies to include company-paid benefits with employee wages

No policy exists for how and when to apply these techniques in the post-performance review

GOED's Post-Performance Review Process Allowed Questionable Corporate Incentives Payments

- Company A: GOED used the incorrect year in their review and improperly issued an EDTIF award for over $100,000.
- Company B: GOED removed 42 new low paying jobs so the company could meet the average wage criteria.
- Company C: GOED made extensive adjustments over three years to justify issuing an award of over $750,000.
- Company D: After failing to meet contractual requirements GOED modified the company contract then retroactively paid them out under the new and reduced contract.
- Company E: was allowed to report up to 75 contractors towards meeting the jobs requirement, even though only two independently verifiable jobs were created.

For additional information, see Report pages 18-23.

Key Recommendations

1. GOED should create formal polices for how the post-performance review should be conducted that clearly document the criteria used to assess company performance

2. GOED should use “new” employee wages to determine if a company qualifies for a corporate incentive award

3. GOED should develop a reliable process to independently verify 3rd party contractors, if the Legislature agrees to permit the practice

Concern 3

1. GOED Gradually Reduced Corporate Incentive Requirements Since 2008
2. Insufficient Post-Performance Controls Led to Questionable Incentive Awards
3. Inadequate Oversight Limits Corporate Incentives Accountability

GOED Has Broad Authority to Issue Corporate Incentives

Company K Potential Award Estimates	Years			
	5	10	15	20
30%	$209,000	$620,000	$1,098,000	$1,652,000
25%	$174,000	$517,000	$915,000	$1,376,000
20%	$139,000	$414,000	$732,000	$1,101,000
15%	$104,000	$310,000	$549,000	$826,000
10%	$70,000	$207,000	$366,000	$551,000
5%	$35,000	$103,000	$183,000	$275,000

For additional information, see Report p. 48.

Companies are Only Required to Create a Fraction of Projected Jobs to Receive a Corporate Incentive Award

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Company Projected Jobs (Aggregate)	20	40	60	80	100	100
GOED's Job Creation Requirement	50%	50%	25%	25%	25%	N/A
Number of Jobs Required for Incentive (Aggregate)	10	20	15	20	25	25

For additional information, see Report p. 47.

Key Recommendations

- Strengthening the statute can improve GOED oversight
- Periodically determine when the current allowance of an incentive of up to 30% for 20 years is appropriate to accomplish the state's economic development goals
- Clearly define key terms that influence the amount of corporate incentives given to companies including:
  - High paying jobs
  - New incremental job growth
  - Competition with other states for company relocation
  - Appropriate length and amount of rebates

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