ECONOMIC DEVELOPMENT

Opportunities Exist for Further Collaboration among EDA, HUD, and USDA

Accessible Version
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What GAO Found

Federal economic development programs and state business incentives approach economic development in different ways. In GAO’s review of six large state business incentive packages ($50 million or more) in four states, federal economic development program funds were not directly used. Reasons for limited use could include differences in purposes and goals, and limitations on how federal funds can be used. For example, the goals of economic development programs administered by the Department of Commerce’s Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), and the U.S. Department of Agriculture (USDA) do not completely align with the goals of state business incentives, the latter of which include attracting and retaining individual businesses.

Although these incentive packages were not funded with federal economic development program funds, some of the businesses that received a large incentive package were highlighted in federal strategic plans as opportunities for investment and job growth in the local economy. The economic development programs of EDA, HUD, and USDA each encourage or require state and local communities to conduct strategic planning, which includes obtaining input from a range of public and private stakeholders and identifying ways to leverage other available resources, such as federal and state funding. Recognizing the similarities in what they require of grantees, in 2016, EDA and HUD entered into an interagency agreement to align planning requirements under their programs. The agencies implemented certain aspects of the agreement, such as issuing joint guidance to applicants. However, they have not implemented selected leading practices for effective interagency collaboration:

- **Updating written agreements:** EDA and HUD have not regularly monitored or updated their interagency agreement to reflect changing priorities of either agency. Officials stated the agencies have prioritized other areas for coordination, such as disaster relief, instead of state and local strategic planning processes.

- **Including relevant participants:** EDA and HUD have made limited efforts to involve USDA in their collaborative efforts. USDA also encourages strategic planning for local communities.

- **Monitoring progress towards outcomes:** EDA and HUD’s agreement identifies specific outcomes, including effectively aligning federal, state, and local resources for economic development. However, the agencies have not monitored progress or addressed any related challenges in meeting the stated outcomes of the collaboration.

By incorporating selected leading practices for effective collaboration, EDA and HUD can help grantees and local communities better manage fragmented efforts to meet federal requirements for strategic planning and more effectively align federal and state resources.
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Abbreviations

CDBG  Community Development Block Grant
EDA  Department of Commerce’s Economic Development Administration
HUD  Department of Housing and Urban Development
USDA  U.S. Department of Agriculture

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July 30, 2021

The Honorable Matt Cartwright
Chairman
Subcommittee on Commerce, Justice, Science and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Lloyd Doggett
House of Representatives
The Honorable Mark Pocan
House of Representatives

State governments spend billions of dollars annually on business incentives—tax concessions, financial assistance, and other benefits—in an effort to attract and retain jobs. In recent years, states have offered large incentive packages with estimated values ranging from $50 million to over $2 billion. State legislatures and researchers have raised questions about the costs of state business incentives and their effects on job creation, investment, and businesses’ location decisions. Federal agencies administer economic development programs that support state and local communities’ efforts to develop strategic plans and can encourage leveraging of resources, including tax incentives. In previous reports, we have identified concerns related to fragmentation in these agencies’ efforts to collaborate on economic development programs with each other.¹

You asked us to review issues related to federal economic development programs and large state business incentives.² This report examines (1) the use of federal economic development programs to support state business incentives, (2) how selected federal agencies collaborate on their economic development programs, and (3) the findings and


²We define large state business incentives as those with estimated values of $50 million or more. For additional information on the data we used to define and identify large incentives, see app. 1.
limitations of evaluations that have been conducted of state business incentives.

To address the first objective, we reviewed documentation on federal economic development programs and interviewed officials from the Department of Commerce’s Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), and the U.S. Department of Agriculture (USDA). We focused on these three agencies because they administer programs that provide financial assistance to private businesses or to local entities for infrastructure development that would benefit private businesses. We selected four states—Louisiana, Pennsylvania, Washington, and Wisconsin—for a more in-depth review of large state business incentives. To select these states, we identified 38 states that provided large incentive packages (defined as $50 million or more) to a business from 2009 through 2019. From those 38 states, we selected a nongeneralizable sample of four states that provided geographic variation. We reviewed information on each of these state’s economic incentive programs and information on one or two selected large incentive packages provided to businesses. We interviewed state officials within the economic development agencies and state auditor offices. We also reviewed research and interviewed officials.

3For purposes of this review, we did not include federal programs that focus exclusively on community development and entrepreneurship or federal tax expenditure programs that support economic development.

4Throughout this report, we refer to large incentive packages as any deals worth $50 million or more. To determine this range, we reviewed literature and research to see how others defined large. The source of the data on incentive packages was a database maintained by Good Jobs First, a nonprofit policy research organization. The database is an online compilation of company-specific data on large economic development deals, referred to as “megadeals” by Good Jobs First. Good Jobs First defines “megadeals” as subsidy awards with a total state and local cost of $50 million or more. We determined our selected states in February 2020. We used data through 2019 as it was the most current data available. In the four selected states, we reviewed a total of six large incentive packages. We selected these large incentive packages because they were the largest (in total estimated value) and offered diversity in the recipient business’s industry and location within the state. To assess the reliability of these data, we reviewed the methodology used to obtain information on incentive packages and the source of such information and confirmed the details for each of our six selected large incentive packages through our own research. We determined these data were reliable for the purposes of our selection of states and incentive packages. Findings from our sample of states and sample of large incentive packages are not generalizable to other states or other large incentive packages within those states. For more details, see app. I.
from four nonprofit, nonpartisan policy research organizations that study state business incentives.\textsuperscript{5}

To address the second objective, we reviewed documentation and interviewed agency officials on collaboration between EDA, HUD, and USDA. We compared how the agencies collaborated against selected leading collaboration practices identified in our prior work.\textsuperscript{6} To address the third objective, we examined states and researchers’ evaluations of state business incentives and identified limitations associated with these evaluations. To understand the economic effect of business incentives across states, we conducted an in-depth review of studies and analyzed findings from 25 peer-reviewed studies that examined the effect of state business incentive programs on job creation, wages, income, and business location decisions.\textsuperscript{7} In addition, we reviewed the requirements that some states have for conducting evaluations of their business incentives. We also interviewed state auditors responsible for evaluating state business incentives in each selected state.\textsuperscript{8} See appendix I for additional information on our methodology.

We conducted this performance audit from December 2019 to July 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

\textsuperscript{5}The organizations were the International Economic Development Council, Good Jobs First, the Pew Institute, and the Upjohn Institute.

\textsuperscript{6}GAO, Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012). For the purpose of our review of the interagency agreement and guidance, we focused on three of the leading collaboration practices, which included written guidance and documenting agreements, including all relevant participants, and clearly defining outcomes. We did not include the other four leading practices of bridging organization cultures, leadership, clarifying roles and responsibilities, and leveraging resources as they were not directly related to our analysis.

\textsuperscript{7}We identified 53 academic studies that evaluated the economic effects of state business incentives. Of those, we reviewed 25 studies that met the following inclusion criteria: the study was a piece of original, peer-reviewed research; the study empirically evaluated the effects of state business incentives on one or more of the following outcomes: job creation or employment, wages or income, or business location decisions; and the study’s methodology was determined to be sufficiently sound.

\textsuperscript{8}For the purposes of our report, state auditor office can include state legislative auditing office, which conduct work for the relevant state legislature.
the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Role of Federal Programs in Economic Development

Federally funded or supported economic development programs appear to overlap with other programs in terms of the economic development activity they fund. EDA, HUD, and USDA programs support activities such as developing industrial parks, commercial buildings and other infrastructure that may directly or indirectly support specific businesses. These programs typically provide loans, loan guarantees, and grants to eligible applicants, such as state, local and tribal governments, and nonprofit organizations. For this review, we focused on programs that could provide financial assistance to private businesses or to local entities for infrastructure development that would benefit private businesses (see table 1).

In 2011, we found that the design of 80 economic development programs we identified appeared to overlap with that of at least one other program in terms of the economic development activity that they are authorized to fund. GAO-11-477R. We previously developed a list of nine activities most often associated with economic development. These activities include planning and developing strategies for job creation and retention, developing new markets for existing products, building infrastructure by constructing roads and sewer systems to attract industry to undeveloped areas, establishing business incubators to provide facilities for new businesses’ operations, supporting entrepreneurial activities, and constructing and renovating commercial buildings and industrial parks, among others. GAO, Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported, GAO-06-294 (Washington, D.C.: Feb. 24, 2006).
### Table 1: Summary of Selected Federal Economic Development Programs

<table>
<thead>
<tr>
<th>Agency</th>
<th>Program</th>
<th>Program description</th>
<th>Eligible applicants</th>
<th>Support provided to businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>EDA</td>
<td>Public Works and Economic</td>
<td>Provides grants for economic development, including planning, technical assistance, revoluing loan funds, and the construction or rehabilitation of public infrastructure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Economic Adjustment Assistance</td>
<td></td>
<td>Economic Development Districts, states, counties, cities, Indian tribes, educational institutions, nonprofit organizations</td>
<td>Yes, through revolving loan funds that lend to eligible businesses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>States, counties, and cities</td>
<td>Yes, for eligible economic development activities</td>
</tr>
<tr>
<td></td>
<td>Community Development Block</td>
<td>Provides annual grants based on a formula for activities that meet one of CDBG’s national objectives to: (1) benefit low- and moderate-income families, (2) aid in prevention or elimination of slums or blight, or (3) meet urgent community development needs. Eligible activities include those that support housing, public improvements, public services, and economic development.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Grant (CDBG)</td>
<td></td>
<td>States, counties, and cities</td>
<td>Yes, for eligible economic development activities</td>
</tr>
<tr>
<td></td>
<td>Section 108 Loan Guarantee</td>
<td>Guarantees loans made to CDBG grantees, giving them the ability to leverage their formula grant allocation to access financing for economic development, housing rehabilitation, public facilities, and other eligible projects.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>States, counties, and cities</td>
<td>Yes, for eligible economic development activities</td>
</tr>
<tr>
<td>USDA</td>
<td>Business and Industry Loan</td>
<td>Guarantees loans made to rural businesses for eligible uses, including purchase of land and equipment, debt refinancing, and business acquisitions that create or save jobs.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Guarantees</td>
<td></td>
<td>For-profit or nonprofit organizations, cooperatives, Indian tribes, public bodies, individuals</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Source: GAO analysis of information from the Department of Commerce’s Economic Development Administration (EDA), Department of Housing and Urban Development (HUD), and the U.S. Department of Agriculture (USDA). |

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The term “State” includes certain territories, possessions and instrumentalities of the United States. See, e.g., 38 U.S.C. § 3822(10), 42 U.S.C. § 5302(a)(2), and 7 C.F.R. § 5001.3.

Revolving loan funds make loans to businesses that cannot otherwise obtain traditional financing or for certain other authorized purposes.

Economic Development Districts are multijurisdictional regions, commonly composed of multiple counties. They are designated by EDA and represented by governmental or non-profit organizations.

Urgent community development needs are those which have a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs.

Our review is focused on two components of HUD’s Community Development Block Grant (CDBG) program: first, the CDBG Entitlement Program, which makes grants to metropolitan cities and urban counties (referred to as entitlement communities), and second, the CDBG State Program, which makes grants to States that in turn administer assistance to nonentitlement communities. See generally 24 C.F.R. pt. 570, subpts. D and I.

In addition to meeting one of CDBG’s national objectives, assistance to for-profit organizations is generally limited to eligible economic development activities that achieve specific public benefits. See, e.g., 24 C.F.R. § 570.209(b)(1). Such assistance can include grants, loans, technical assistance, and other forms of support. See, e.g., 24 C.F.R. §§ 570.203(b), 570.703(i).
Use of Strategic Planning in Selected Federal Economic Development Programs

EDA, HUD, and USDA require or encourage state and local communities that apply for federal funds to develop strategic plans that articulate economic development priorities and actions and identify other resources to leverage for reaching their goals.

- EDA requires Economic Development Districts and other areas where projects will be located to develop a Comprehensive Economic Development Strategy (planning document). In order to qualify for assistance under EDA’s Public Works and Economic Adjustment Assistance programs, applications from eligible entities must be consistent with the Comprehensive Economic Development Strategy (or an equivalent planning document) for the region in which the project will be located. EDA requires that organizations developing a Comprehensive Economic Development Strategy engage a variety of stakeholders, such as community leaders and the private sector, to determine ways to collaborate across the region on economic development. Additionally, these organizations should identify ways to integrate other available resources, such as local, state, private and federal funds.

- HUD requires its CDBG grantees, generally state and local governments that receive awards for community development and affordable housing, to develop a Consolidated Plan that is reflective of

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10 Economic Development Districts are multijurisdictional regions designated by EDA and represented by governmental or non-profit organizations. They are commonly composed of multiple counties and sometimes cross state borders. EDA’s programs fund local and regional implementation projects in EDDs and other areas meeting certain economic distress criteria. The area in which the project is located must have a Comprehensive Economic Development Strategy, with the exception of certain planning projects and special impact areas. 42 U.S.C. §§ 3149(b)(2), 3154; 13 C.F.R. § 301.10(c).

11 With EDA’s approval, organizations can use a planning document prepared under another federally-supported program as a Comprehensive Economic Development Strategy. 42 U.S.C. § 3162(c); 13 C.F.R. § 303.7(c).
CDBG’s national objectives. In developing the plan, grantees are asked to involve the community to determine the most pressing needs and develop effective, place-based, market-driven strategies to meet those needs. CDBG grantees must also incorporate into their plan available federal, state, and local resources, such as grants and incentives.

- USDA reserves a portion of funds for select programs under its Strategic Economic and Community Development program to prioritize projects that support implementing strategic community investment plans focused on community development and economic growth in rural communities. Plans must leverage regional resources, such as monetary and non-monetary investments from government, private and philanthropic organizations.

### Overview of State Business Incentives

All states and the District of Columbia offer some form of business incentives, which provide tax or financial incentives for attracting and retaining businesses, promoting business expansion, and creating and

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12CDBG’s three national objectives are to: (1) benefit low- and moderate-income families, (2) aid in the prevention or elimination of slums or blight, and (3) meet other community development needs which have a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs. According to HUD, Consolidated Plans are required for all of HUD’s annual block grants, which include CDBG, the HOME Investment Partnerships Program, the Emergency Solutions Grant program, and the Housing Opportunities for Persons with AIDS Grant.

13The Strategic Economic and Community Development program prioritizes funding for projects that support implementation of strategic community investment plans on a multijurisdictional and multisectoral basis. See 7 U.S.C. § 2008v. Priority may be given to applications under certain covered programs, such as USDA’s Business Industry and Loan Guarantee and Rural Business Development Grant programs. USDA implements the Strategic and Economic Community Development program by reserving funds from the covered programs’ appropriation; by setting aside this funding, USDA encourages applicants to support projects that promote and implement strategic community investment plans. In addition, USDA’s Rural Economic Development Innovation, an initiative supported by the Rural Development Innovation Center, provides technical assistance to help rural towns and regions create and implement economic development plans.
maintaining jobs.\textsuperscript{14} Since the 1990s, states and localities have increased their use of business incentives, and estimates of the total annual cost of state and local business incentives currently range from approximately $30 billion to $45 billion.\textsuperscript{15}

States offer a variety of types of business incentives to attract and retain individual businesses. Incentives can include direct financial benefits, such as grants or loan programs, but most incentives are in the form of tax incentives, such as job creation tax credits or property and sales tax abatements.\textsuperscript{16} In contrast to economic development programs described earlier, states’ business incentives generally include programs that directly target individual businesses or specific industries. They do so by offering financial benefits that reduce tax burdens or operational costs, with the general goal of influencing businesses’ decisions regarding relocation, retention, expansion, job creation, or capital investment in a particular state or geographic area.\textsuperscript{17} States may also combine business incentives or pass legislation to create large incentive packages targeted to individual businesses or projects that state policymakers consider


particularly valuable.\textsuperscript{18} The following section and appendix II provide examples of business incentives and incentive packages in selected states.

**States Did Not Use Federal Economic Development Programs in the Selected Large State Business Incentives We Reviewed**

States did not use EDA, HUD, and USDA economic development programs to directly support the large state business incentives we selected. We reviewed six large business incentive packages in the four states we selected.\textsuperscript{19} Each of the four selected states in our sample had offered at least one large incentive package to a business from 2012 through 2017. Based on our review of documentation and interviews with officials from the federal agencies and at three state economic development agencies, we found that none of the selected incentive packages included any program funds from EDA, HUD, or USDA.\textsuperscript{20} Although these incentive packages did not receive federal economic development program funds, some of the businesses that received a large incentive package were highlighted in federal strategic plans as opportunities for investment and job growth in the local economy. Table 2 provides a list of the large incentive packages that we reviewed.

\textsuperscript{18}The estimated value of large incentive packages can range from $50 million to over $2 billion in benefits for the recipient business. The actual value of these packages generally depends on the performance of the recipient business, such as the number of jobs created or amount of capital investment generated over time. Researchers and state officials with whom we spoke noted that large incentives generally are not representative of the type or value of incentives that states typically offer to businesses.

\textsuperscript{19}Findings from our sample of states and sample of large incentive packages are not generalizable to other states or other large incentive packages within those states. For more details on the selected states, see app. II.

\textsuperscript{20}For one of our selected incentive packages, we found that federal funds were used to indirectly support the business’s planned development. In 2018, the Department of Transportation awarded Wisconsin a $160 million Infrastructure for Rebuilding America grant for highway construction near the planned Foxconn development.
<table>
<thead>
<tr>
<th>State</th>
<th>Recipient business</th>
<th>Project receiving incentive</th>
<th>Year incentive announced</th>
<th>Programs included in incentive package and estimated potential incentive value(s)</th>
</tr>
</thead>
</table>
| Louisiana  | Cameron LNG, subsidiary of Sempra Energy  | Expansion of liquid natural gas export facility                                              | 2012                     | • Up to approximately $2.9 billion in property tax exemptions through the Industrial Tax Exemption Program.  
• Up to approximately $45 million in tax credits and $5.6 million in 10-year payroll rebates through the Quality Jobs program, dependent on job creation and capital investment. |
|            | DXC Technology                           | Development of a digital transformation center                                              | 2017                     | • Up to $18.7 million in performance-based grants, provided on a cost reimbursement basis.  
• Workforce assistance through a $25 million higher education initiative in partnership with DXC Technology.  
• $13 million through the Rapid Response Fund program.  
• Additional assistance through local incentive programs. |
| Pennsylvania | Royal Dutch Shell                      | Development of an ethane processing facility                                               | 2012                     | • Up to $1.65 billion from 2017 to 2042 through the Pennsylvania Resource Manufacturing Tax Credit Program, dependent on the volume of ethane processed at the facility.  
• Additional exemptions from state and local taxes through the Keystone Opportunity Zone program.  
• $10 million through the Pennsylvania First grant program. |
| Washington | Aerospace industry (incentives targeted to Boeing) | Development of a new Boeing aerospace assembly facility and retention of existing aerospace industry workforce. | 2013                     | • Expansion and extension of existing tax preferences for the aerospace industry, including three preferential business and occupation tax rates, two business and occupation tax credits, two sales and use tax exemptions, a property tax exemption, and a leasehold excise tax exemption.  
• Up to $8.7 billion total through the year 2040, dependent on specific business activities. |
| Wisconsin  | Foxconn                                  | Development of a liquid crystal display screen manufacturing facility                       | 2017                     | • Up to $2.85 billion in refundable tax credits dependent on job creation and capital investment over a 15-year period.  
• Additional incentives in the form of sales and use tax exemptions, an enterprise zone for income and franchise tax credits, grants to local governments.  
• Additional funds from local government spending.  
• Federal grant of $160 million from the U.S. Department of Transportation for highway expansion construction near the planned development. |
<table>
<thead>
<tr>
<th>State</th>
<th>Recipient business</th>
<th>Project receiving incentive</th>
<th>Year incentive announced</th>
<th>Programs included in incentive package and estimated potential incentive value(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Kohl’s Corporation</td>
<td>Expansion of corporate headquarters offices</td>
<td>2012</td>
<td>• Up to $62.5 million in refundable tax credits, dependent on activities including job creation and capital investment, through the state’s Enterprise Zone program.</td>
</tr>
</tbody>
</table>

EDA, HUD, and USDA officials told us that their understanding is that states do not use federal programs to directly support state business incentives. Similarly, officials from the three state economic development agencies with whom we spoke stated that they generally do not use federal funds to fund or support their state incentives. For instance, an official from one state suggested that federal funds may be used in conjunction with community development or infrastructure projects but not for attracting and retaining businesses. Moreover, officials from research and trade organizations told us that while federal programs may promote general economic development or indirectly benefit businesses in an area, these programs are not used as incentives to attract or retain businesses.

Reasons for limited use of federal program funds to directly support state business incentives included differences in purposes and goals, limitations on how federal funds can be used, and restrictions on funding business relocations.21

Differences in purposes and goals. Federal economic development programs and state business incentives serve distinct purposes and generally promote different economic development goals and strategies, as discussed earlier. The federal programs have goals such as promoting economic development in distressed or rural areas, benefitting low- and moderate-income persons, assisting rural businesses or businesses that lack access to credit, and meeting other community development needs. Officials from EDA, HUD, and USDA told us that the goals of these federal programs do not include influencing individual businesses’

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21In its response to the draft report, HUD stated that differences in these types of requirements can be statutory in nature. HUD suggested that differing statutory requirements can make it more difficult for agencies to collaborate, despite an interest in greater alignment.
location or investment decisions. By contrast, the goals of state business incentives are to attract and retain businesses and improve the states’ economic competitive advantage.

**Limitations on how federal funds can be used.** State economic development agencies, which oversee state business incentives, have limited discretion in how they can use funds from the selected federal economic development programs. For example,

- A state cannot use EDA program funds to make grants to individual businesses. In addition, EDA officials told us that when they review applications for infrastructure investments, they ensure that more than one business would typically benefit from the investment. Also, according to an EDA official, because the EDA application process takes time, a state would not know in advance if it would be awarded funding it could offer as an incentive, in contrast to state incentives that can be offered to businesses at the state’s discretion.

- Businesses apply for USDA loans through a third-party lender that reviews the applications along with USDA’s regional officials. Therefore, state economic development officials do not have the discretion to decide which businesses receive USDA loans. Additionally, USDA officials told us that USDA loans are often used to support existing projects in rural areas rather than to attract new businesses.

- While local grantees and states make decisions on which activities to fund through their CDBG allocations, the activities must meet the program’s objectives and satisfy other eligibility criteria. Specifically, CDBG-funded activities must meet one of three national objectives: (1) benefit to low- and moderate-income families, (2) aid in the prevention or elimination of slums or blight, and (3) meet an urgent

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22 Officials from HUD added that grantees have flexibility in allocating CDBG funds to activities that support their local needs, and that if they determine the need to attract businesses to a specific local area, they can do so by directly or indirectly supporting a business with CDBG funds. They added that due to the scale of the CDBG program, the amount of financial assistance provided to a business would be smaller in comparison to the value of incentives provided in the incentives packages we reviewed.


24 According to officials, EDA can support a project with only one identified beneficiary when there is an assumption that other businesses will be able to benefit from the project in the future as well.
community development need. In addition, HUD officials told us that assistance to private businesses is generally limited to certain economic development activities.

**Restrictions that prevent the funding of business relocations.** EDA, HUD, and USDA programs contain nonrelocation provisions which restrict the use of funds for a purpose that relocates jobs from one area to another. HUD’s and USDA’s nonrelocation provisions are based in statute, while EDA voluntarily applies a nonrelocation provision to its programs. Nonrelocation provisions limit the extent to which federal programs can support private businesses that want to relocate from one state to another. EDA officials told us they would not award grants to help a company relocate from one state to another. They noted that when reviewing applications and making funding decisions, they ask each applicant to demonstrate that EDA funds would not be used to attract a business from another state.

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25Urgent community development needs are those which have a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs.

26See, e.g., 24 C.F.R. § 570.203(b).

27The terms and conditions of the nonrelocation provisions vary by program. For example, USDA generally prohibits assistance if more than 50 jobs will be relocated, whereas HUD’s provision uses a numeric formula based on the labor force in a defined labor market area. See 7 U.S.C. § 1932(d)(2) and 24 C.F.R. §§ 570.210, 570.482(h). EDA requires recipients to attest that funding is not intended to induce the relocation of jobs from one jurisdiction to another jurisdiction; recipients must also disclose employers that are beneficiaries of the project and which are estimated to create or save 100 or more permanent jobs. There are also certain exceptions to the agencies’ nonrelocation provisions.

28We have previously reported on federal economic development programs that contain statutory prohibitions on using program funds to relocate businesses and how agencies administer these provisions. GAO-07-1005.

EDA and HUD Signed an Interagency Agreement on Their Economic Development Strategic Planning Processes

In 2016, EDA and HUD signed an interagency agreement to align their respective community and economic development planning processes. Our past work has shown that collaboration is a tool to improve the management of fragmentation and overlap among federal efforts. The agreement acknowledged similar objectives and content shared between the strategic planning documents each agency required of its grantees. The agreement stated the agencies would work together to encourage each agency’s grantees to conduct strategic planning that reflects local needs and optimizes resources for economic and community development projects.

Further, the agreement stated the agencies would jointly develop guidance. This guidance was to describe ways that planning documents prepared for one agency could be adapted for the other agency. In addition, the guidance was intended to help grantees coordinate planning of local projects and reduce administrative and planning burden. The agreement also stated that the agencies would establish a mutually agreed upon timeline for the completion and distribution of the guidance, and develop a plan to gather public input and provide technical assistance on the guidance. Lastly, the agreement stated that the


30The interagency agreement noted that HUD’s community planning and development programs aim to expand economic opportunities for low- and moderate-income persons while EDA aims to foster economic growth and diversification in communities and regions across the nation. Economic Development Districts and other communities where EDA-funded projects are located develop Comprehensive Economic Development Strategies. Community Development Block Grant grantees, including metropolitan cities, urban counties, and states, develop Consolidated Plans.
agencies’ collaborative effort was intended to help communities increase engagement with the public.\textsuperscript{31}

EDA and HUD implemented this agreement in 2017 by developing guidance for grantees to conduct comprehensive, streamlined planning that satisfied the criteria for both EDA’s Comprehensive Economic Development Strategy and HUD’s Consolidated Plan. Figure 1 illustrates the similarities between the planning processes that EDA and HUD require of their grantees.

\textbf{Figure 1: Similarities between EDA’s and HUD’s Community and Economic Development Planning Processes}

<table>
<thead>
<tr>
<th>Planning period</th>
<th>5-year planning document</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizen participation</td>
<td>Require consultation with similar groups</td>
</tr>
<tr>
<td>Public comment</td>
<td>Require a 30-day public comment period</td>
</tr>
<tr>
<td>Strategic planning analysis</td>
<td>Use data to identify the area’s needs, assess the market, incorporate federal and nonfederal funding, and set measurable goals</td>
</tr>
<tr>
<td>Focus on distressed urban and rural areas</td>
<td>Outcome-focused and reflect the goal of expanding economic opportunity</td>
</tr>
<tr>
<td>Similar intended beneficiaries</td>
<td>EDA’s plan focuses on building capacities to create resilient regional economies that produce good jobs in distressed areas. HUD’s plan focuses on creating and retaining good jobs for people of low and moderate incomes.</td>
</tr>
<tr>
<td>Economic resilience</td>
<td>Must incorporate a resilience component</td>
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</tbody>
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<td>Public agencies, housing authorities, and adjacent local governments</td>
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<tr>
<td>Community leaders, labor and minority groups</td>
<td>Civic leaders, community organizations, and advocates</td>
</tr>
<tr>
<td>Private sector</td>
<td>Business leaders</td>
</tr>
<tr>
<td>Community members</td>
<td>Citizens and community residents</td>
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</tbody>
</table>

Source: Department of Commerce’s Economic Development Administration (EDA) and Department of Housing and Urban Development (HUD) joint guidance (October 2017). \cite{GAO-21-579}

\textsuperscript{31}Both HUD and EDA require grantees to solicit and incorporate public input in the planning process.
Text of Figure 1: Similarities between EDA’s and HUD’s Community and Economic Development Planning Processes

Elements common to EDA’s and HUD’s requirements for grantees’ planning processes

- Planning period – 5 year planning document
- Citizen participation - Require consultation with similar groups
- Public comment - Require a 30-day public comment period
- Strategic planning analysis - Use data to identify the area’s needs, assess the market, incorporate federal and nonfederal funding, and set measurable goals
- Focus on distressed urban and rural areas - Outcome-focused and reflect the goal of expanding economic opportunity
- Similar intended beneficiaries EDA’s plan focuses on building capacities to create resilient regional economies that produce good jobs in distressed areas. HUD’s plan focuses on creating and retaining good jobs for people of low and moderate incomes.
- Economic resilience - Must incorporate a resilience component

Citizen participation

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Source: Department of Commerce’s Economic Development Administration (EDA) and Department of Housing and Urban Development (HUD) guidance. | GAO-21-579
The planning processes that EDA and HUD require of their respective economic development grantees also have some differences. For example, the planning documents each agency requires are in different formats, cover different geographic areas, and have different time frames for completion.

Although not a part of the formal interagency agreement, according to officials, EDA and USDA have worked together to ensure economic development planning documents have met each agency’s respective requirements. USDA officials explained that a rural community applying for USDA funds may use EDA’s Comprehensive Economic Development Strategy or HUD’s Consolidated Plan to fulfill USDA’s planning requirement for receiving priority under its Strategic Economic and Community Development program. HUD and USDA have not coordinated on the planning documents.

EDA and HUD Agreement Did Not Incorporate Selected Practices for Effective Interagency Collaboration

EDA and HUD’s collaboration related to grantees’ economic development strategic planning did not incorporate selected leading practices we have previously identified for effective interagency collaboration. These practices relate to written guidance and agreements, including relevant participants, and clearly defining outcomes and ensuring accountability.

**Written guidance and agreements.** Our leading collaboration practices state that agencies can strengthen their commitment to working collaboratively by articulating their agreements in formal documents. We have also reported that written agreements are most effective when they are regularly monitored and updated. As discussed earlier, EDA and HUD entered into a formal interagency agreement to collaborate on the requirements they place on grantees for economic development strategic planning. The agreement was formalized and explained the rationale for

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32As noted earlier, USDA’s Strategic Economic and Community Development program prioritizes funding for projects that support implementation of strategic community investment plans on a multijurisdictional and multisectoral basis.

33GAO-12-1022. For the purpose of our review of the interagency agreement and guidance, we focused on three of the leading collaboration practices, which included written guidance and documenting agreements, including all relevant participants, and clearly defining outcomes. We did not include the other four leading practices of bridging organization cultures, leadership, clarifying roles and responsibilities, and leveraging resources as they were not directly related to our analysis.
their collaboration, which we have previously identified as a key factor in successful collaboration.

However, EDA and HUD have not regularly monitored or updated their written agreement on their collaborative efforts. EDA and HUD officials told us they worked together closely on the agreement in the year after it was signed (2017). During this time, the agencies formed a working group comprised of members from each agency to learn about each agencies planning guidelines for grantees, developed joint guidance, and disseminated it to grantees. But officials noted that after releasing the guidance at the end of 2017, the collaborative effort was limited and the agencies did not monitor or update the agreement to reflect either agencies’ changing priorities.

According to EDA and HUD officials, at the onset of the collaborative effort, supporting local strategic planning was a priority for both agencies. However, priorities shifted due to changes in agency leadership and focus shifted away from coordinating on strategic planning to other areas such as administering disaster assistance and implementing Opportunity Zones. In addition, agency officials noted that the intent of the agreement was less of a way to formalize the planning process but rather a way to strengthen collaborative efforts for planning at the federal level, since community and economic development planning is generally done at the local level. They added that the guidance was meant to be a resource for grantees that voluntarily wanted to integrate their planning

34 Officials from each agency noted that the collaboration for this interagency agreement was beneficial in supporting their discussions with the other agency on other issues where coordination was needed. HUD officials explained that the agency’s role in the implementation of Opportunity Zones was extensive, with it being the lead coordinating agency. In order to support implementation of Opportunity Zones, a White House Opportunity and Revitalization Council (Council) was established by Executive Order in December 2018. Chaired by the HUD Secretary or the Secretary’s designee, the Council includes representatives from more than 17 executive branch agencies and offices. Exec. Order No. 13853: Establishing the White House Opportunity and Revitalization Council. 83 Fed. Reg. 65071 (Dec. 12, 2018). Opportunity Zones are a tax expenditure that reduces taxpayers’ liabilities and federal revenues created to spur investment in distressed communities. Overseen by the Internal Revenue Service (IRS), Opportunity Zones allow taxpayers to defer taxes on invested gains, and in certain circumstances pay reduced taxes, by investing in distressed communities designated as Qualified Opportunity Zones through Qualified Opportunity Funds. See GAO, Opportunity Zones: Improved Oversight Needed to Evaluate Tax Expenditure Performance, GAO-21-30 (Washington, D.C.: Oct. 8, 2020).
efforts because they saw a benefit in doing so.\textsuperscript{35} And officials from both agencies pointed out that there are elements of the two agencies’ planning requirements that are different and may be barriers to integrated planning. These include differences between EDA and HUD requirements related to populations served, organizations involved, and timing of the 5-year cycle. In addition, HUD’s planning document has a wider scope since it covers a wide range of community needs, including housing and homelessness, while EDA’s planning document focuses on a community’s economic development planning needs.

However, officials from both agencies expressed renewed interest in revisiting the 2016 agreement and how best to support local grantees in coordinated planning efforts. Additionally, HUD and EDA officials told us that they recognize the need to further examine the differences between the two agencies’ requirements and determine the extent to which their grantees conduct planning for both EDA and HUD. Further, HUD officials stated there seemed to be interest among its grantees to explore new opportunities to use CDBG funds for economic development due to the impacts of the pandemic on businesses. By reexamining the written agreement and guidance, EDA and HUD can determine what ways it may better support local communities in efficient planning of their resources for economic development.

**Including relevant participants.** Our work on leading collaboration practices has noted the importance of agencies including relevant participants in their collaborative efforts. These participants can include other federal agencies, state and local entities, and organizations from the private and nonprofit sectors.\textsuperscript{36}

EDA and HUD have taken steps to include relevant participants from within their respective agencies in the collaborative effort. According to officials, EDA and HUD formed a working group to carry out the interagency agreement and develop joint guidance, which included headquarters and regional staff from EDA’s Economic Development Integration team and HUD’s Community and Planning Department that work directly with grantees in assisting them to develop the planning

\textsuperscript{35} HUD officials added that grantees develop their plans to reflect local priorities, which may or may not include economic development so aligning the HUD plan with EDA’s plan may not be helpful for all of HUD’s grantees.

\textsuperscript{36} GAO-12-1022.
Additionally, officials said they had shared the guidance with officials in all the regional offices through a webinar and presented the guidance at an industry conference for development organizations. However, EDA and HUD have not formally included USDA in their collaborative effort, even though USDA’s requirements for plans submitted under the Strategic Economic and Community Development program are similar to those of EDA and HUD. For example, similar to EDA and HUD’s plans, plans submitted under USDA’s Strategic Economic and Community Development program are to be developed with the collaboration of multiple stakeholders and leverage regional resources. As noted earlier, USDA and EDA officials worked informally to understand and accept each other’s planning documents, but have not formalized their coordination.

According to USDA officials, USDA was not included in HUD’s and EDA’s collaboration in part because USDA does not establish planning guidance under the Strategic Economic and Community Development program, and the program was relatively new when the agreement was signed in 2016. In addition, USDA officials said that it was not involved with HUD because the agencies cover different geographic areas—urban and rural.

37 In response to our prior recommendation in 2011, EDA established the Economic Development Integration team to formalize their efforts in coordinating economic development across federal agencies. This team has a presence in each of EDA’s six regional offices and in EDA’s headquarters office in Washington, D.C. The Economic Development Integration team has three primary objectives: (1) increasing access to federal economic development resources, (2) enhancing collaboration with other federal and non-federal partners and stakeholders, and 3) reducing administrative burdens.

38 In 2019, EDA and HUD officials presented at an industry conference about the collaboration and guidance on integrated planning. Participants included organizations that undertake local strategic planning and other stakeholders involved in the planning processes.

39 According to USDA, plans submitted for the Strategic Economic and Community Development priority must (1) be multijurisdictional and multisectoral; (2) have monetary or nonmonetary investment other than USDA; (3) have the participation of multiple stakeholders; (4) demonstrate an understanding of regional assets; (5) contain a rural community vision for future improvement; and (6) have objectives with clear performance measures, ability to track progress, and action steps for implementation.

40 According to officials, EDA and USDA have worked together on other initiatives, including regional events held to inform their stakeholders about each agency’s funding opportunities and through joint outreach and technical assistance to grantees of each agency.
areas for HUD and rural areas for USDA. However, we have previously noted overlap in HUD’s and USDA’s economic development programs and said that the agencies would benefit from coordinating them.\textsuperscript{41} And as mentioned earlier, regularly updating an interagency agreement is important to ensure it is reflective of current priorities and all the relevant participants. Further, by working with HUD and EDA to align strategic planning requirements with those agencies’ requirements for local communities, USDA could reduce the administrative and planning burden of grantees receiving economic development grants from all three agencies. Finally, local planning efforts that integrate goals and programs of all three agencies can help to avoid fragmentation of federal resources for economic development.

**Monitoring progress towards outcomes and ensuring accountability.** We have previously identified leading practices for effective agency collaboration including having clearly defined short-term and long-term outcomes and ensuring accountability by monitoring progress towards them.\textsuperscript{42} EDA and HUD established specific outcomes in the interagency agreement, including a short-term outcome of developing and disseminating joint guidance. EDA and HUD subsequently did achieve the outcome of developing guidance, as discussed earlier.

However, EDA and HUD have not developed a formal method to ensure accountability by monitoring progress towards the long-term intended outcomes of the collaboration. According to the agreement, EDA and HUD’s efforts were intended to enhance the ability of grantees to increase engagement with stakeholders; strategically plan for future housing, community, and economic development needs; and effectively align federal, state, and local resources for greater impact. EDA and HUD have not systematically gathered information from their grantees and other stakeholders to assess progress towards achieving these outcomes or determine what challenges may exist in achieving them.

EDA and HUD officials told us the agencies met their main objective to develop guidance on integrated planning requirements and they did not see the agreement as a long-term endeavor. They also stated that differences in the planning requirements may have prevented further

\textsuperscript{41}GAO-11-477R. HUD officials noted that plans developed by their state grantees generally include a description of the needs of rural communities in the state and that HUD grantees undertake activities in both urban and rural areas.

\textsuperscript{42}GAO-12-1022.
adoption of integrated planning efforts. Although there were efforts to engage with some grantees informally through conferences, the agencies have not systematically solicited formal feedback from grantees or other stakeholders on the guidance, any challenges they face, and whether or not they would pursue integrated planning. Specifically, the agencies have not

- assessed how coordination is working across the agencies;
- systematically solicited or received feedback from grantees on whether they found the guidance useful and whether it streamlined grantees planning efforts; or
- systematically solicited or obtained feedback from public participants, such as public officials, community organizations, businesses and citizens on whether the guidance resulted in a more streamlined planning process.

As noted earlier, EDA and HUD officials told us they worked together closely during the year after entering into the agreement in 2016 but that their interaction has since decreased. As a result, the agencies have not ensured accountability by monitoring progress towards the objectives in the agreement, such as increasing grantees’ engagement with stakeholders. By monitoring progress towards the outcomes of their interagency agreement and addressing any related challenges, EDA and HUD can better manage fragmentation in their economic development efforts and assess whether they are achieving key objectives of the collaborative effort.

**Empirical Research Found State Business Incentives Have Limited Effect, but Evaluating These Effects Is Challenging**

Empirical Research Found Limited Evidence State Business Incentives Created Jobs, Increased Wages, or Affected Business Decisions

Overall, the 25 empirical studies on economic effects of states’ business incentives we reviewed, published from 2011 through 2020, found limited evidence that business incentives created jobs, increased wages or income, or affected a business’s decision to locate, expand, or remain in
The studies ranged from evaluations of a single incentive program within an individual state to evaluations of multiple types of incentives or specific categories of incentives used across multiple states. Studies also varied in the types of empirical methods used and limitations identified. Some of the studies evaluated the effects of business incentives in a number of ways:

- **Job creation or employment.** Nineteen of the 25 studies evaluated job creation or employment. Seven of the 19 studies found positive effects and twelve found no effect or mixed effects on job creation as a result of the incentives studied.

- **Effect on wages and income.** Eight of the 25 studies evaluated the effect of states' business incentives on wages and income. Seven of the eight studies found mixed effects or no effects in increasing wages or income and one study found positive effects.

- **Effect on business location decisions.** Eight of the studies reviewed the effect of incentives on business location decisions. Nearly all the studies (seven of the eight) found mixed evidence that incentive use affected business location decisions and one study found that business incentives had no effect on location decisions.

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43 We identified 53 academic studies that evaluated the economic effects of state business incentives and reviewed 25 that met the following inclusion criteria: the study was a piece of original, peer-reviewed research; the study empirically evaluated the effects of state business incentives on one or more of the following outcomes: job creation or employment, wages or income, or business location decisions; and the study’s methodology was determined to be sufficiently sound. See app. I for detailed information about our methodology and a complete list of studies we reviewed.

44 These studies' findings are not all directly comparable to one another or generalizable. The studies vary in terms of the specific incentive programs evaluated, outcomes analyzed, and empirical methodologies used in their analyses of economic effects. The incentives included in these studies may have one or more sources of funds that could include federal, state, or local funds.

45 In the studies we examined, the effects of the business incentives on the outcomes do not imply causations but rather correlations because of the methodologies that were used.

46 A mixed effect means the analysis indicated positive, negative, or no effect depending on the estimation technique, the sample, or the type of incentive.

47 Of the 25 studies we reviewed, 10 of them evaluated the effect of business incentives on more than one outcome. The remaining 15 studies examined one of the outcomes discussed below.
Examples from our review of studies that examined the effects of state business incentives, and challenges associated with the studies, include the following:

- **Creating jobs.** One study that examined two of Ohio’s business incentive programs from 2000 through 2004 found different effects across various industries.\(^48\) This study provided an example of results varying by incentive type and industry studied, making it difficult to draw conclusions on each incentive’s overall effectiveness. For instance, the state Job Creation Tax Credit program gave corporate franchise tax credits or personal income tax credits to businesses locating in certain areas. The state Enterprise Zone program provided exemptions from local taxes, personal property taxes, and state franchise taxes. The study found that the Job Creation Tax Credit program was associated with positive job growth in the trade and transportation industry, but no job growth in manufacturing. Conversely, the Enterprise Zone program was associated with no job growth in trade and transportation but positive job growth in manufacturing.\(^49\)

In another study, researchers evaluated financial incentives to the biotechnology industry in 11 states from 1990 through 2010.\(^50\) Incentives used varied by each state and included forms of state tax credits, tax exemptions, tax refunds, grants, and low-interest loans. Researchers found positive effects on employment in pharmaceutical

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\(^48\)The study used multivariate regression analysis for panel data to examine the effects of both programs in Ohio. Andy Hultquist, “An Evaluation of Geographically Targeted Development Programs in Ohio,” *Journal of Urban Affairs*, vol. 37, no. 2 (2014).

\(^49\)Unlike a tax credit, a tax exemption reduces the amount of taxes a business owes by exempting the business from paying certain taxes. While the programs had different features and affected industry sectors differently, both were associated with no job growth in the aggregate. Hultquist, “An Evaluation of Geographically Targeted Development Programs,” (2014).

\(^50\)The states evaluated in this study were Arkansas, California, Colorado, Florida, Maine, Maryland, Massachusetts, Missouri, New Jersey, North Carolina, and Washington. All 11 states provided at least one type of incentive to businesses in the biotechnology industry during the period studied. Researchers used five different types of regression analysis to estimate the effects of financial incentives on biotechnology employment and other outcomes. Enrico Moretti and Daniel J. Wilson, “State Incentives for Innovation, Star Scientists and Jobs: Evidence from Biotech,” *Journal of Urban Economics*, vol. 79 (2014).
Another study evaluated a job-creation tax credit program in Kansas over a 6-year period. The study's survey findings indicated that businesses used the program to obtain subsidies for expansion or relocation plans that were already planned, regardless of obtaining government support, making it difficult to evaluate the effectiveness of the job-creation tax credits. More specifically, the program, known as Promoting Employment Across Kansas, provided refunds for up to 95 percent of a business's state taxes for up to 10 years. Researchers studied over 500,000 businesses and found no difference in job creation between businesses that received tax credits from this program and those that did not.  

- **Increasing wages or income.** One study examined the effect of state tax incentives provided to the motion picture industry on the annual change in wages paid to workers in that industry. Between 1998 and 2013, over 40 states offered such incentives, all aimed at reducing production costs. The study found that wages in states with refundable tax credits increased when compared to states with transferrable credits and states with no credits at all. Wage increases only lasted temporarily and, on average, disappeared after 6 years. A study of Oklahoma’s Quality Jobs program examined its effect on growth in median household income, and researchers found mixed results.  

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52 The study used both multivariate regression analysis and a matching method to compare employment across businesses with and without the job-creation tax credits. The study complemented both methods with an internet survey of program applicants to determine what their expected job creation would be in the absence of the program. Jensen, “Job Creation and Firm-Specific Location Incentives”.

53 The study focused on tax incentives in the form of tax credits (both refundable tax credits and transferrable tax credits) and tax waivers (both sales tax waivers and lodging tax waivers). Refundable tax credits are those that will be refunded to the business, by the state, if the business earns more in tax credits than it owes in taxes. Transferrable tax credits are those that can be transferred, or sold, to another taxpayer in the state if the business earns more in tax credits than it owes in taxes. The study used multivariate regression analysis to compare tax incentive use across states. Michael Thom, “Lights, Camera, but No Action? Tax and Economic Development Lessons from State Motion Picture Incentive Programs,” American Review of Public Administration, vol. 48, no. 1 (2018).

54 To reach this conclusion, the study used time intervals studied to properly contextualize results.
evidence of business incentives’ effects within the same study.\textsuperscript{55} Using one empirical method that matched communities in Oklahoma with a control group of similar communities in Kansas, researchers found that the Quality Jobs program increased the growth rate of median household income by 10 percent in communities in Oklahoma compared to those in Kansas that did not have a comparable incentive program.\textsuperscript{56} Using two additional empirical methods, the same researchers found no evidence that the Quality Jobs program increased the growth rate of median household income.\textsuperscript{57} This study provides an example of how differences in empirical methodology can lead to conflicting results.

Another study examined the effect of large increases in a state’s use of business incentives on weekly wages from 1990 through 2015. Researchers used a database that tracks state tax and incentive policies for 45 industries across 32 states and found that large increases in use of incentives had no effect on weekly wages.\textsuperscript{58}

- **Influencing business location decisions.** One study examined a Texas tax reduction incentive program called the Chapter 313 program. This program was used to attract large businesses to Texas by forgiving a significant portion of the business’s property taxes. The study reviewed 86 projects from 2002 through 2008 and found that


\textsuperscript{56}Researchers found this result using a matching method that matches and compares communities with similar underlying characteristics in Oklahoma and Kansas, known as the nearest-neighbor matching. Whitacre, Shidelers, and Williams, “Do Incentive Programs Cause Growth?” (2016).

\textsuperscript{57}Researchers found no effect of the Quality Jobs program on the growth rate of median income using multivariate regression analysis and a matching method that matched and compared communities within the state of Oklahoma with similar underlying characteristics. Whitacre, Shidelers, and Williams, “Do Incentive Programs Cause Growth?” (2016).

\textsuperscript{58}Researchers used the Panel Database on Incentives and Taxes, which tracked state tax incentive policies by year across 45 industries and 32 states from 1990 through 2015. To define “large” increases, the study examined all increases in incentives as a percentage of business value-added and categorized “large” increases as those that fell in the top 5 percent. Researchers used multivariate regression analysis for panel data to examine the effects of changes to incentive policies. Jia Wang, Weici Yuan, and Cynthia Rogers, “Economic Development Incentives: What Can We Learn From Policy Regime Changes?” \textit{Economic Development Quarterly}, vol. 34, no. 2 (2020).
less than 15 percent of businesses were influenced to locate in Texas by this program.\textsuperscript{59}

Another study that examined motion picture incentives in the form of tax credits and waivers found no effect of business incentive use on location decisions in the motion picture industry from 1998 through 2013.\textsuperscript{60}

Appendix III provides more details on our review of empirical studies on economic effects of state business incentives.

### Challenges Exist in Evaluating the Effects of States' Business Incentives

While empirical studies and state evaluations of business incentives have generated a variety of findings, researchers and state officials have identified challenges that can limit the ability to accurately determine and evaluate the effects of these incentives.\textsuperscript{61}

**Empirical challenges in evaluating states' business incentives.** The effectiveness of state business incentives depends on the extent to which the incentives influenced the businesses' decisions to locate in, remain, create jobs, or invest in a particular area. Researchers have identified several empirical challenges in evaluating the effectiveness of state business incentives related to data availability and methodology.

\textsuperscript{59}Most businesses indicated they would have located in Texas regardless of having received an incentive, particularly in the oil and chemical companies along the coast of the Gulf of Mexico. The study used multivariate regression analysis along with a case study of 86 specific projects. Nathan M. Jensen, “Bargaining and the Effectiveness of Economic Development Incentives: An Evaluation of the Texas 313 Program,” Public Choice, vol. 177 (2018).

\textsuperscript{60}The study measured business location decisions in the motion picture industry by the industry concentration at the state level. Thom, “Lights, Camera, but No Action?” (2018).

\textsuperscript{61}We reviewed academic studies that evaluated the economic effects of state business incentives and spoke with state officials responsible for evaluating state business incentives in each selected state. See app. I for detailed information about our methodology and a complete list of studies we reviewed.
First, state administrators often do not gather or track relevant data on incentives.\(^2\) State governments do not consistently provide details on their incentive programs or the businesses that receive incentives.\(^3\) Without consistent and comprehensive data, researchers cannot identify the effects of incentive programs across businesses or geographic areas.

Second, some businesses receive incentives through more than one program, which hinders empirical analyses because researchers may be unable to separate the effects of one program from another.\(^4\)

Finally, differences in incentive type, industry, and business studied can lead to conflicting results, making it difficult to draw definitive conclusions within or across studies.

Isolating the effects of state business incentive programs is also methodologically difficult. Program evaluation requires researchers to generate an appropriate comparison scenario in which an incentive was not available or used.\(^5\) To estimate the effect of an incentive on a business’s decisions, researchers must determine whether the business would have made the same decisions had it not received an incentive. However, it may not always be possible to determine businesses’ specific reasons for these decisions because such information is generally not measured or reported.\(^6\) Additionally, it is challenging to compare the effects of a business receiving an incentive to a counterfactual scenario where the same business or a similar control group did not receive the incentive.\(^7\) In the absence of an appropriate counterfactual scenario, it is difficult to isolate the effects of business incentives.

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\(^2\)According to one study, state tax administrators are either ill-equipped or not authorized to collect relevant data for program evaluation. Administrative data are collected for audit purposes and not necessarily for program evaluation. Wang, Yuan, and Rogers, “Economic Development Incentives,” (2020): p. 117.

\(^3\)Jensen, “Job Creation and Firm-Specific Location Incentives,” p. 95.


\(^5\)Jensen, “Job Creation and Firm-Specific Location Incentives,” p. 95.

\(^6\)Jensen, “Job Creation and Firm-Specific Location Incentives,” p. 96.

\(^7\)Timothy J. Bartik, “‘But For’ Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?” W.E. Upjohn Institute for Employment Research (2018).
Another challenge in isolating the effects of business incentives is that incentives are only one of several factors that affect a business’s decision to locate, expand, or remain in a location. According to one study, state tax liabilities represent a small fraction of a business’s total costs, and therefore incentives that offset these costs may not significantly influence where the business chooses to locate. Additionally, officials from two research organizations and one trade organization told us incentives are not one of the primary factors that affect business location decisions. Rather, businesses’ decisions depend more on factors such as the availability of skilled labor, proximity to infrastructure, land costs, and access to consumer markets. Officials from a state auditing office in one of our selected states also told us that given the various factors that influence business decisions, it is not feasible to determine whether one factor—such as tax incentives—led an individual business to make a location decision. Despite these challenges, in the studies described earlier, researchers have attempted to isolate the effects of business incentives by controlling for multiple variables or comparing firms receiving incentives to firms without incentives.

Variation in states’ requirements for evaluating their business incentives. Not all states regularly evaluate their business incentives, and among those that do, there is variation in the frequency and types of evaluations conducted. Research from the Pew Charitable Trusts found that the number of states with tax incentive reporting or evaluation requirements increased from 2012 through 2019. By 2019, 32 states and the District of Columbia had established a plan to regularly evaluate state incentives. 


69 While specific methodologies varied across studies we reviewed, the 25 empirical studies we describe in this report used quasi-experimental designs in an attempt to isolate effects of business incentives such as multivariate regression analysis and matching methods. See app. I for detailed information about our methodology and a complete list of studies we reviewed.
business incentives. Given the potential costs and benefits of state business incentives, state policymakers have increasingly required states to regularly evaluate the effects of business incentives and compliance with incentive requirements.

States’ evaluations are generally intended to provide state policymakers with information on business incentives’ administration, costs, compliance with incentive requirements, and whether incentives are achieving their intended purpose. Based on our interviews with state auditing agencies and our review of states’ statutes, we found all four states in our sample have requirements to report on or evaluate their business incentive programs. Appendix II provides additional information on incentive evaluation requirements in the four selected states.

States’ requirements and plans for conducting these evaluations vary. Research on 50 states and the District of Columbia conducted by the Pew Charitable Trusts found some states’ evaluations focus on the performance and effectiveness of incentives, while others focus more on program administration and costs or businesses’ compliance with program requirements. Evaluations also vary in their schedules and frequency, the types of entities that conduct evaluations, and the criteria.

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70Pew Charitable Trusts, How States Are Improving Tax Incentives for Jobs and Growth: A national assessment of evaluation practices (May 2017); and State Tax Incentive Evaluation Ratings (May 3, 2017, updated August 19, 2019). Included in this count were states that established laws or policies requiring ongoing or periodic evaluations of tax incentive programs. The cycle length for the periodic evaluations varied across states which, as of 2017, ranged from 1 year to 10 years. Pew did not assess whether states were consistently following the evaluation cycle times. The cycle length for periodic evaluations in some states depends on the type of tax being evaluated. Additionally, not all states that established plans to conduct periodic evaluations of incentive programs had set a cycle time. Not included in this count are states that had a policy in place for 5 years or longer but had not yet produced an evaluation that measured the effectiveness or economic impact of the tax incentive programs. Report authors did not include states that conducted ad hoc or one-time evaluations. Also not included in this count are states that established periodic reviews considering the costs of incentives without benefits or states that periodically evaluated some but not all incentive programs.


72Pew Charitable Trusts, How States Are Improving Tax Incentives.
or methodologies used to evaluate business incentives. The Pew Charitable Trusts identified several best practices for states to design effective business incentive evaluation plans, including that evaluations (1) be conducted by independent and non-partisan entities, (2) occur on a strategic schedule, (3) include rigorous analysis of economic and fiscal effects, (4) estimate the extent to which incentives affect business decisions, and (5) make recommendations to inform policymaking, among other best practices.

**Examples of the influence of state evaluations.** While the effect that evaluations of business incentives have on state decision-making is not fully known, we identified examples where evaluation findings led states to take action, such as modifying a statute or terminating a business incentive.

- The Pennsylvania Independent Fiscal Office issued three tax credit reviews in 2019, including reviews of the state’s New Jobs Tax Credit and Film Production Tax Credit programs. One report concluded that most jobs qualifying for tax credits under the New Jobs Tax Credit program would have been created regardless of the incentive. It found that given the costs of the tax credits, the program had an overall negative economic effect. The other report concluded that the Film Production Tax Credit was too low in value to effectively attract film production businesses from other states where they have already established a long-term presence. Following these reports, the state legislature eliminated the New Jobs Tax Credit and increased the annual cap for the Film Production Tax Credit.

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73 Additionally, while some states use economic methods to evaluate incentives’ effects, other states’ evaluations may use other evaluative techniques to provide more descriptive information.


75 App. II contains examples of findings from evaluations conducted by state auditors in the four states we selected.

Officials from the Washington Joint Legislative Audit and Review Committee told us their state legislature implemented 70 percent of the recommendations from their business incentive reviews completed from 2007 through 2017. The officials told us that legislators made several changes as a result of these recommendations, including revising a statute to ensure newly enacted incentives include explicitly stated objectives and continuing several tax preferences found to be meeting their intended purposes. In addition, at least one tax incentive was allowed to expire because its costs were found to outweigh its estimated benefits.77

Conclusions

EDA, HUD, and USDA, play a significant role in encouraging local communities to strategically plan how they can leverage federal and other financial resources, such as state business incentives, to meet their economic development needs. Although, as previously discussed, we found none of the six large state business incentive packages ($50 million or more) in the four states we examined directly used federal program funds, strategic planning efforts for federal economic development programs highlighted some of the businesses that received these packages in its planning documents.

Both EDA and HUD have acknowledged synergies across each agency’s mission to promote strategic planning and involve public and private stakeholders in the planning process. The agencies entered into an interagency agreement to formalize their collaborative efforts and help grantees to streamline and minimize administrative burden for economic developing planning. We have previously reported that such collaboration can improve the management of overlapping federal efforts.

EDA and HUD’s collaboration could be enhanced if they applied leading practices for collaborative efforts which we have previously identified. The interagency agreement formalized and identified the common goals of the

77In 2012, the Joint Legislative Audit and Review Committee’s report on the state’s high technology research and development tax preferences found the incentives’ costs outweighed the estimate benefits. Based on these findings, these incentives were allowed to expire as scheduled in 2015. The Washington Joint Legislative Audit and Review Committee is the state’s nonpartisan legislative auditor and is required by law to conduct regular reviews of the state’s tax preferences. See, e.g., Wash. Rev. Code. § 43.136.055. State of Washington, Joint Legislative Audit & Review Committee, 2012 Tax Preference Performance Reviews, Report 13-1, 2013.
agencies in 2016, but the agencies have not revisited the agreement to address changes in priorities. Additionally, EDA and HUD have not assessed the extent to which USDA should be involved in the collaborative effort. Further, the agencies could benefit from monitoring progress toward the desired outcomes and addressing any challenges they identify. By incorporating leading practices in collaboration, the agencies can help grantees and local communities better manage overlapping efforts to meet federal requirements for strategic planning, which can reduce administrative and planning burden for local communities while also assisting these communities to better address their economic development needs.

**Recommendations**

We are making a total of five recommendations (two recommendations each to EDA and HUD and one recommendation to USDA):

The Assistant Secretary of Economic Development at EDA should, in collaboration with HUD, revisit the two agencies’ interagency agreement on community and economic development planning to align their collaborative efforts based on current priorities and determine to what extent USDA should be included in the agreement. (Recommendation 1)

The Assistant Secretary of Economic Development at EDA should, in collaboration with HUD, monitor progress toward achieving outcomes of the two agencies’ interagency agreement on community and economic development planning. (Recommendation 2)

The Principal Deputy Assistant Secretary for Community Planning and Development at HUD should, in collaboration with EDA, revisit the two agencies’ interagency agreement on community and economic development planning to align their collaborative efforts based on current priorities and determine to what extent USDA should be included in the agreement. (Recommendation 3)

The Principal Deputy Assistant Secretary for Community Planning and Development at HUD should, in collaboration with EDA, monitor progress toward achieving outcomes of the two agencies’ interagency agreement on community and economic development planning. (Recommendation 4)

The Deputy Under Secretary for Rural Development at USDA should work with EDA and HUD to identify opportunities to include USDA in the
agencies’ collaborative efforts on community and economic development strategic planning. (Recommendation 5)

Agency Comments and Our Evaluation

We provided a draft copy of this report to Commerce, HUD, and USDA for review and comment. Commerce and HUD provided written comments, which are reproduced in appendixes IV and V. In its written comments, Commerce stated it accepted the two recommendations we directed to EDA (recommendations 1 and 2). In HUD’s written comments, the agency generally concurred with the two recommendations we directed to HUD (recommendations 3 and 4) and provided some areas of further clarification, which we discuss in more detail in appendix V. USDA Rural Development responded with an email stating it generally agreed with our recommendation (recommendation 5).

Commerce stated it looked forward to further collaborating with HUD and USDA to address these recommendations. The agency added that it may explore this collaboration beyond the scope of the 2016 agreement or through new agreements.

HUD agreed with our third recommendation and plans to revise its agreement with EDA and formalize its current collaboration with USDA through a memorandum of understanding. In response to our fourth recommendation, HUD did not agree nor disagree with the recommendation but described steps to address it. Specifically, HUD stated it believed the 2016 agreement met its intended purpose, but noted the agreement did not include ways to monitor progress toward achieving outcomes. HUD stated the draft report provided concrete steps for improved interagency collaboration. HUD plans to develop a revised agreement and will consider incorporating outcomes and a monitoring and evaluation protocol. In addition, HUD provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees and members, the Secretaries of Agriculture, Commerce, and Housing and Urban Development, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices
of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

William B. Shear  
Director, Financial Markets and Community Investment
Appendix I: Objectives, Scope, and Methodology

Our objectives in this report were to examine (1) the use of federal economic development programs to support state business incentives, (2) how selected federal agencies collaborate on their economic development programs, and (3) the findings and limitations of evaluations that have been conducted of state business incentives.

We primarily focused on programs administered by the Department of Commerce’s Economic Development Administration (EDA), the Department of Housing and Urban Development (HUD), and the U.S. Department of Agriculture (USDA). To gain an understanding of large state business incentives, we identified 38 states that provided large incentive packages—with an estimated value of at least $50 million—to a business from 2009 through 2019.¹ We then selected a nongeneralizable sample of four states that had offered at least one large incentive package to an individual business from 2009 through 2019 and that represented geographic variation across the United States. Using these criteria, we selected Louisiana, Pennsylvania, Washington, and Wisconsin. We identified large incentive packages based on research

¹Throughout this report, we refer to large incentive packages as any deals worth $50 million or more. To determine this range, we reviewed literature and research to see how others defined large.
conducted by the nonprofit policy research organization Good Jobs First.\(^2\) Within the four states, we selected a total of six large incentive packages to review. For each state, we selected the incentive package with the largest reported estimated value. In the two selected states that had offered more than one large incentive package in our selected time period, we selected another incentive package to examine. The second incentive package we selected was from a different year and targeted a business in a different industry and geographic area than the first selected incentive package. Findings regarding our sample of states are not generalizable to other states and findings regarding our sample of large incentive packages are not generalizable to other large incentive packages.

To address the first objective on the use of federal economic development funds to support state business incentives, we reviewed documentation on selected EDA, HUD, and USDA programs related to the programs’ purpose, eligibility, and restrictions. We selected these programs because they administered programs that provide funds directly related to economic development.\(^3\) We also interviewed officials from EDA, HUD, and USDA headquarters offices and regional, field, or state offices for each of our selected states. We also reviewed the community and economic development plans developed by the state or local entity with jurisdiction over the geographic area of our selected incentive packages. Additionally, we reviewed program data from EDA, HUD, and

\(^2\)We reviewed multiple data sources on state tax incentives. For the purpose of our review, we selected the database maintained by Good Jobs First, a nonprofit policy research organization, which includes a list of publicly reported large incentive packages that states have offered to businesses. The database is an online compilation of company-specific data on large economic development deals, referred to as “megadeals” by Good Jobs First. Good Jobs First defines “megadeals” as subsidy awards with a total state and local cost of $50 million or more. This list is based on public reports from a variety of sources including government press releases and news reports, but is not a comprehensive list of all large incentive packages offered by all states. We used this dataset to identify states that have offered large incentive packages to individual businesses, and to identify examples of large incentive packages offered by the selected states. We determined our selected states in May 2020. We used data through 2019 as it was the most current data available. We assessed the reliability of the data by interviewing an official from Good Jobs First to confirm the methodologies and reliability of information used in its research and by reviewing the information sources and reported details for each of our six selected large incentive packages. We determined these data were reliable for the purposes of selecting states and incentive packages to examine.

\(^3\)For purposes of this review, we did not include federal programs that focus exclusively on community development and entrepreneurship or federal tax expenditure programs that support economic development.
USDA grants and loans disbursed in the geographic area of our selected incentive packages. We conducted a search of academic studies on the effects of federal economic development programs.4

To understand the types of business incentives that states use to attract and retain jobs, we reviewed research and interviewed officials from four nonprofit, nonpartisan policy research organizations that study state business incentives.5 Additionally, for our selected states, we reviewed relevant state statutes, documentation, business incentive evaluations, and publicly available news reports regarding each selected state’s business incentives and the large incentive packages we selected. We interviewed officials responsible for administering state business incentives from state economic development agencies in three of the four states about their use of EDA, HUD, and USDA programs, and confirmed details on their states’ business incentives and the selected large incentive packages.6

To address the second objective, we interviewed EDA, HUD, and USDA officials about their efforts to collaborate with other federal agencies, including implementation of interagency agreements. Additionally, we reviewed documentation on the interagency agreement and guidance for local grantees on aligning planning documents. We compared the two agencies’ collaborative efforts to selected leading collaboration practices

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4The search resulted in two studies that conducted empirical analysis. One of these focused on the effect of Section 108 loans on property values and the other study focused on the effect of EDA’s investments on employment. We did not include the findings of these studies on our report because they did not evaluate state business incentives. HUD provided studies examining the effects of its CDBG and Section 108 programs, which we reviewed, but did not include in our report because they did not evaluate state business incentives. For example, Econometrica, Inc. and the Urban Institute, Study of HUD’s Section 108 Loan Guarantee Program, a report prepared at the request of the Department of Housing and Urban Development, Office of Policy Development and Research (September 2012).

5The organizations were the International Economic Development Council, Good Jobs First, the Pew Institute, and the Upjohn Institute.

6Officials from Louisiana’s economic development agency declined our request for an interview.
identified in our prior work. To develop those leading practices, we conducted a literature review on interagency collaborative mechanisms, interviewed 13 academic and practitioner experts in the field of collaboration, and analyzed prior GAO reports related to collaborative mechanisms. For the selected states, we spoke with state officials about their use of EDA, HUD, and USDA programs and their involvement in developing planning documents for these federal agencies.

To address the third objective, we examined states and researchers’ evaluations of state business incentives and identified limitations associated with these evaluations. To understand the economic effect of business incentives across states, we conducted an in-depth review of studies. We began our search for peer-reviewed studies, working papers, publications from associations, nonprofits or think tanks, government reports, legislative materials, and trade or industry articles. We conducted searches of various databases, such as ProQuest, EBSCO, National Bureau of Economic Research, Scopus, and Social Science Research Network, using search terms such as “economic development,” “tax incentive,” and “business incentive.” We performed these searches in March, April, May, and November 2020. We also identified peer-

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7GAO, Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012). For the purpose of our review of the interagency agreement and guidance, we focused on three of the leading collaboration practices, which include written guidance and documenting agreements, including all relevant participants, and clearly defining outcomes. We did not include the other four leading practices of bridging organization cultures, leadership, clarifying roles and responsibilities, and leveraging resources, as they were not directly related to our analysis.

8EBSCO is the full name of this database and is not an acronym.

9We identified 53 academic studies that evaluated the economic effects of state business incentives. We identified studies by conducting a literature search for peer-reviewed academic articles published from 2009 through 2019 that empirically evaluated the effect of state business incentives on certain economic variables. The 25 studies we reviewed met the following inclusion criteria: the study was a piece of original, peer-reviewed research; the study empirically evaluated the effects of state business incentives on one or more of the following outcomes: job creation or employment, wages or income, or business location decisions; and the study’s methodology was determined to be appropriate. While specific methodologies varied across studies, the studies used quasi-experimental designs in an attempt to isolate effects of business incentives such as multivariate regression analysis and matching methods. The effects reported in the studies do not imply causations between the business incentives and the outcomes, but rather correlations because of the methodologies that were used. The studies included in our review used data from varying time intervals from 1970 through 2017. Ten studies used data sources that begin no earlier than the year 2000.
reviewed studies published between 2009 and 2020 that cited a 2004 peer-reviewed metareview study that reviewed research on the effects of state business incentives.\textsuperscript{10}

We included studies in our review if they met the following criteria: (1) were peer-reviewed or economic working papers published from 2009 through 2019; (2) included empirical, research-based findings on the effects of business incentive programs; and (3) evaluated the effect of business incentive programs on one or more of the following outcomes: jobs or employment, wages or income, or business location decisions. Because our scope was focused on business incentives used by state governments, we did not include studies that evaluated business incentives used by local governments. To further limit our scope, we also did not include studies that evaluated the effect of business incentive programs on several other outcomes, including investments, property values, economic growth, fiscal issues, inter-state competition, and inequality.\textsuperscript{11}

We identified 30 studies that met our criteria and conducted a detailed review to determine if the studies provided information on the effects of states’ business incentive programs. This review entailed an evaluation of each study’s limitations and methodology, as well as a summary of its major findings.\textsuperscript{12} We eliminated five studies we determined did not have relevant findings or methods that were appropriate for our purposes. Table 3 lists the 25 studies we determined to be sufficiently reliable for our purposes and categorizes business incentives evaluated as either tax


\textsuperscript{11}These outcomes are those that could be affected as a consequence of state business incentives’ effect on one or more of the three outcomes that we included. For example, property values could be affected by a state’s business incentive program if it affected employment, wages, or a business’s location decision. If a study examined one of these outcomes in addition to the three outcomes in our inclusion criteria, that study was reviewed.

\textsuperscript{12}We did not conduct independent assessments of business incentive programs as part of this review or a legal review of state laws related to business incentive programs. For the purposes of this report, we describe business incentive programs in the way that researchers described them in the reviewed studies. We did not independently verify this information and do not endorse any particular business incentive program.
Appendix I: Objectives, Scope, and Methodology

expenditure or program expenditure.\textsuperscript{13} Appendix III provides additional information on some of these studies.

\textsuperscript{13}For the purposes of this report, we defined a tax expenditure program as tax abatements, credits, deductions, deferrals, exemptions, reduced rates, and/or rebates. We defined a program expenditure as direct spending, cash subsidies, grants, small business loans, workforce development programs, or infrastructure funding. If a study reviewed more than one incentive, we included the category of each incentive.
Table 3: Studies Included in GAO’s Review Analyzing the Effects of Business Incentives

<table>
<thead>
<tr>
<th>Year of publication</th>
<th>Title</th>
<th>Author(s)</th>
<th>Source</th>
<th>Tax expenditure&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Program expenditure&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>Chasing Disparity: Economic Development Incentives and Income Inequality in the U.S. States</td>
<td>Jansa, Joshua M.</td>
<td>State Politics and Policy Quarterly</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>2020</td>
<td>Incentivizing the Missing Middle: The Role of Economic Development Policy</td>
<td>Patrick, Carlianne and Heather M. Stephens</td>
<td>Economic Development Quarterly</td>
<td>X</td>
<td>—</td>
</tr>
<tr>
<td>2020</td>
<td>Economic Development Incentive Program Deadweight: The Role of Proper Design Features, Firm Characteristics, and Location</td>
<td>Rephann, Terance J.</td>
<td>Growth and Change</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>2020</td>
<td>Evaluating State and Local Business Incentives</td>
<td>Slattery, Cailin and Owen Zidar</td>
<td>Journal of Economic Perspectives</td>
<td>X</td>
<td>—</td>
</tr>
<tr>
<td>2018</td>
<td>Producing Drama: A Comparison of Film Tax Incentives to Alternative Uses</td>
<td>Brady, Devin, Adam T. Jones, and Ethan Watson</td>
<td>Applied Economics Letters</td>
<td>X</td>
<td>X&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
<tr>
<td>2018</td>
<td>Bargaining and the Effectiveness of Economic Development Incentives: An Evaluation of the Texas Chapter 313 Program</td>
<td>Jensen, Nathan M.</td>
<td>Public Choice</td>
<td>X</td>
<td>—</td>
</tr>
<tr>
<td>2018</td>
<td>Lights, Camera, but No Action? Tax and Economic Development Lessons from State Motion Picture Incentive Programs</td>
<td>Thom, Michael</td>
<td>American Review of Public Administration</td>
<td>X</td>
<td>—</td>
</tr>
<tr>
<td>2018</td>
<td>Targeted State Economic Development Incentives and Entrepreneurship</td>
<td>Tuszynski, Meg Patrick and Dean Stansel</td>
<td>Journal of Entrepreneurship and Public Policy</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
## Appendix I: Objectives, Scope, and Methodology

<table>
<thead>
<tr>
<th>Year of publication</th>
<th>Title</th>
<th>Author(s)</th>
<th>Source</th>
<th>Tax expenditure&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Program expenditure&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Job Creation and Firm-Specific Location Incentives</td>
<td>Jensen, Nathan M.</td>
<td>Journal of Public Policy</td>
<td>X</td>
<td>—</td>
</tr>
<tr>
<td>2017</td>
<td>The Effect of Economic Development Programs and Clawback Provisions on Job Creation: A Pre-Registered Evaluation of Maryland and Virginia Programs</td>
<td>Jensen, Nathan M.</td>
<td>Research and Politics</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>2017</td>
<td>The Employment Effects of State Hiring Credits</td>
<td>Neumark, David and Diego Grijalva</td>
<td>Industrial and Labor Relations Review</td>
<td>X</td>
<td>—</td>
</tr>
<tr>
<td>2017</td>
<td>Preliminary Evidence on Film Production and State Incentives</td>
<td>Swenson, Charles W.</td>
<td>Economic Development Quarterly</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>2016</td>
<td>Do Incentive Programs Cause Growth? The Case of the Oklahoma Quality Jobs Program and Community-Level Economic Growth</td>
<td>Whitacre, Brian E., David Shideler, and Randi Williams</td>
<td>Economic Development Quarterly</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>2015</td>
<td>The Influence of State Sales and Use Taxes on Manufacturers’ Capital Expenditures and Employment</td>
<td>Hageman, Amy, Donna Bobek, and LeAnn Luna</td>
<td>Public Finance Review</td>
<td>X</td>
<td>—</td>
</tr>
<tr>
<td>2014</td>
<td>Simulating the Effects of the Tax Credit Program of the Michigan Economic Growth Authority on Job Creation and Fiscal Benefits</td>
<td>Bartik, Timothy J. and George Erickcek</td>
<td>Economic Development Quarterly</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

<sup>a</sup>We define a tax expenditure program as tax abatements, credits, deductions, deferrals, exemptions, reduced rates, and/or rebates.

Source: GAO. | GAO-21-579

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*Legend: X = Business incentives evaluated, — = Business incentives not evaluated*
Appendix I: Objectives, Scope, and Methodology

We define a program expenditure as direct spending, cash subsidies, grants, small business loans, workforce development programs, or infrastructure funding.

Study compares tax incentives in the film industry to other programs, but does not specify which other programs.

To understand state evaluations of business incentives, we reviewed documentation on state business incentives offered by the four states in our review, including selected statutory requirements for business incentive reporting and evaluations. We also reviewed evaluations conducted by our selected state agencies to understand their findings and any limitations of the evaluations. Additionally, we interviewed state auditors responsible for evaluating state business incentives in each selected state. We also reviewed reports from and spoke with staff from the Pew Charitable Trusts on their reviews of states' strategies to evaluate business incentives.

We conducted this performance audit from December 2019 to July 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

14 For the purposes of our report, state auditor office can include a state legislative auditing office, which conducts work for the relevant state legislature.

15 We reviewed the study’s methodology to ensure it was sufficiently sound and determined that the study’s limitations did not call into question the reasonableness of its conclusions. Pew Charitable Trusts, How States Are Improving Tax Incentives for Jobs and Growth: A national assessment of evaluation practices (May 2017); and State Tax Incentive Evaluation Ratings (May 3, 2017, updated August 19, 2019).
Appendix II: Examples of Business Incentives and Evaluations in Four Selected States

This appendix provides information about selected state business incentives, and selected evaluations of such incentives, in Louisiana, Pennsylvania, Washington, and Wisconsin.

Selected State Tax Incentive Programs

While business incentives generally share similar goals of influencing businesses to locate, remain, or expand their operations and business activities within a particular state, the specific requirements and benefits of incentive programs can vary within and across states. Table 4 describes examples of different tax incentives and program requirements from four selected states.

<table>
<thead>
<tr>
<th>State</th>
<th>Incentive program</th>
<th>Program details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louisiana</td>
<td>Industrial Tax Exemption Program</td>
<td>Provides a partial property tax abatement on a manufacturer’s qualifying capital investment related to the manufacturing process in the state.</td>
</tr>
<tr>
<td></td>
<td>Quality Jobs Program</td>
<td>Available to businesses in certain industries that create jobs meeting certain wage criteria. It provides a percentage rebate on annual payroll expenses, and either a state sales and use tax rebate on capital expense or a percentage expense rebate for qualifying expenses.</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>Keystone Opportunity Zone Program</td>
<td>Provides certain state and local tax abatements to businesses and residents locating in designated zones. Businesses relocating to a designated zone must conduct required activities such as increasing full-time employment by a specific amount or making a capital investment of a certain value to be eligible.</td>
</tr>
<tr>
<td></td>
<td>Manufacturing Tax Credit Program</td>
<td>Provides tax credits to taxpayers who increase their annual taxable payroll by a minimum value through the creation of new full-time jobs.</td>
</tr>
<tr>
<td>Washington</td>
<td>Qualified Aerospace Product Development Expenditures Business and Occupation Tax Credit</td>
<td>Provides a business and occupation tax credit for a percentage of qualified preproduction development expenditures used in manufacturing commercial airplanes or component parts of commercial airplanes by aerospace manufacturers or processors.</td>
</tr>
</tbody>
</table>
# Appendix II: Examples of Business Incentives and Evaluations in Four Selected States

The table below summarizes business incentives in various states, with detailed descriptions of each program:

<table>
<thead>
<tr>
<th>State</th>
<th>Incentive program</th>
<th>Program details</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sales and Use Tax Exemption for Manufacturing Machinery and Equipment</td>
<td>Exempts businesses from paying sales and use taxes on machinery and equipment used directly in a manufacturing operation or research and development.</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>Business Development Tax Credit Program</td>
<td>Provides refundable tax credits if a business increases its net employment in the state, and for businesses retaining or locating a corporate headquarters in the state.</td>
</tr>
<tr>
<td></td>
<td>Enterprise Zone Program</td>
<td>Provides refundable tax credits to businesses in designated geographic zones based on the businesses' job creation, wages, capital expenditures, and other business activities.</td>
</tr>
</tbody>
</table>

Source: GAO analysis of documentation from Louisiana, Pennsylvania, Washington, and Wisconsin state agencies. | GAO-21-579
Selected State Evaluations and Sample Findings

In recent years, states have increasingly required regular reporting on or evaluation of their business incentives. The states’ evaluation requirements we identified (summarized below) generally seek to improve policymakers’ oversight of business incentives. State evaluations can vary in terms of the entities required or authorized to conduct the evaluations, their scope and frequency, and the criteria or methodologies used to collect information and assess results. Each of the four selected states we reviewed have established requirements for some type of regular evaluation of their business incentive programs.

- **Louisiana:** In 2013, Louisiana established a statutory requirement for state agencies that administer tax incentives to submit reports—currently on a biennial basis—that review their own incentive programs.¹ Louisiana Economic Development—the state’s executive agency for economic development—is required to report on the tax incentives it administers. Additionally, the Louisiana Legislative Auditor—an independent, nonpartisan agency—evaluates Louisiana Economic Development’s reports for compliance with statutory requirements. It also has the authority to conduct performance audits of the effectiveness of state agency programs.² Officials from the Louisiana Legislative Auditor told us that as of 2020, they have conducted one performance audit of a state tax incentive, and plan to conduct more in the future.

- **Pennsylvania:** In 2017, Pennsylvania established a statutory requirement for the Independent Fiscal Office—an independent, nonpartisan agency—to conduct performance-based budget reviews of the state’s tax credits.³ The agency’s tax credit reviews are required to be conducted based on a schedule that ensures all tax credits are reviewed at least once every 5 years.


Appendix II: Examples of Business Incentives and Evaluations in Four Selected States

- **Washington**: In 2006, Washington established a statutory requirement for the Joint Legislative Audit and Review Committee—an independent, nonpartisan agency—to conduct performance reviews of certain state tax preferences.\(^4\) The agency’s tax preference reviews must be conducted on a schedule that accomplishes an orderly review of tax preferences at least once every 10 years.

- **Wisconsin**: In 2011, Wisconsin established a statutory requirement for the Legislative Audit Bureau—an independent, nonpartisan agency—to conduct biennial program evaluation audits of the economic development programs administered by the Wisconsin Economic Development Corporation.\(^5\) The Wisconsin Economic Development Corporation is the state’s public-private economic development agency that administers programs including tax incentives, grants and loan programs.

Table 5 describes examples of findings from recent evaluations of business incentives from each of the four states we reviewed.


\(^5\)See Act of February 9, 2011, No. 7, § 7 (codified at Wis. Stat. § 13.94(1)(dr)).
## Table 5: Sample Findings from State Evaluations of Business Incentive Programs, 2019–2020

<table>
<thead>
<tr>
<th>State</th>
<th>Author</th>
<th>Program(s) evaluated</th>
<th>Report year</th>
<th>Example of finding(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Louisiana</td>
<td>Louisiana Legislative Auditor</td>
<td>Quality Jobs Program&lt;sup&gt;a&lt;/sup&gt;</td>
<td>2020</td>
<td>Household income benefits: The evaluation found the majority of benefits for household income generated by projects receiving the incentive would have been generated even if the program had not been available. Louisiana Economic Development, the agency that implements the program, disagreed with this conclusion, and also disagreed with other findings from this evaluation. Recommendations: The report had four recommendations related to topics including reporting and estimating the number of jobs created by companies receiving the incentive. The report also included 10 matters for legislative consideration to amend the program in various ways, such as improving the program's return on investment and adjusting incentive recipients' wage requirements.</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>Independent Fiscal Office</td>
<td>New Jobs Tax Credit&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2019</td>
<td>Job creation: The evaluation concluded it was unlikely that the program had a significant effect on job creation, and that the net economic effect of the program was negative. Recommendations: The report had four recommendations including that if the program is retained, policymakers should consider significant program revisions, reprogram funds to a more effective program, or convert the job creation tax credits to a grant program.</td>
</tr>
<tr>
<td>Washington</td>
<td>Joint Legislative Audit &amp; Review Committee</td>
<td>Multiple aerospace industry tax preferences&lt;sup&gt;c&lt;/sup&gt;</td>
<td>2019</td>
<td>Job creation: The evaluation reviewed tax incentives for the aerospace industry with the objective of maintaining and growing the state’s workforce in that industry. The evaluation noted that since multiple factors affect business location decisions, evaluators were unable to determine whether the incentives led a large firm to remain and expand within the state. Therefore, incentives’ effects on job creation or job loss were unclear. Recommendations: The evaluation recommended that the state legislature clarify expectations for the level of aerospace industry employment.</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>Legislative Audit Bureau</td>
<td>Electronics and Information Technology Manufacturing Zone Program&lt;sup&gt;d&lt;/sup&gt;</td>
<td>2020</td>
<td>Compliance with program requirements: The evaluation reported that the Wisconsin Economic Development Corporation indicated that Foxconn's activities and investments in Wisconsin to date were ineligible for program tax credits. As a result, the Wisconsin Economic Development Corporation did not award any program tax credits to Foxconn in 2020. It also did not award any program tax credits in prior years.</td>
</tr>
</tbody>
</table>

<sup>a</sup>This program is available to business in certain industries that create jobs meeting certain wage criteria. It provides a percentage rebate on annual payroll expenses, and either a state sales and use tax rebate on capital expense or a percentage expense rebate for qualifying expenses. Louisiana Legislative Auditor, *Louisiana Quality Jobs Program Tax Incentive Evaluation*, 2020.

<sup>b</sup>This program provides tax credits to businesses that create jobs in the state within 3 years of a designated start date. Pennsylvania Independent Fiscal Office, *Pennsylvania New Jobs Tax Credit: An Evaluation of Program Performance*, 2019.

<sup>c</sup>These tax preferences include three preferential business and occupation tax rates, two business and occupation tax credits, two sales and use tax exemptions, a property tax exemption, and a leasehold excise tax exemption for businesses performing certain activities in the aerospace industry.
Appendix II: Examples of Business Incentives and Evaluations in Four Selected States


This program provides tax credits for job creation and capital investment to businesses operating within a designated zone. Wisconsin Legislative Audit Bureau, Electronics and Information Technology Manufacturing Zone Program - Wisconsin Economic Development Corporation, 2020.
Appendix III: Review of Empirical Studies on Economic Effects of State Business Incentives

We conducted a literature search for academic articles published from 2009 through 2019 that empirically evaluated the effect of state business incentives on economic variables and identified 53 academic, peer-reviewed studies. Of these, we reviewed 25 studies that met our inclusion criteria.¹

Overall, we found limited evidence that business incentives created jobs, increased wages or income, or affected businesses’ decision to locate, expand, or remain in a location.² The scope of these studies range from evaluations of a single incentive programs within an individual state to evaluations of multiple types of incentives or specific categories of incentives used across multiple states.³

Creating jobs. Nineteen out of 25 studies evaluated the effect of business incentives on job creation. Of these, eight found mixed effects,

¹These criteria were that the study was a piece of peer-reviewed research that empirically evaluated the effects of state business incentives on one or more of the following outcomes: job creation or employment, wages or income, or business location decisions, and that the study’s methodology was determined to be appropriate.

²The studies included in our review use data from varying time intervals from 1970 through 2017. Ten studies use data sources that begin no earlier than the year 2000.

³These studies’ findings are not all directly comparable to one another or generalizable. The studies vary in terms of the specific incentive programs evaluated, outcomes analyzed, and methodologies used in their analyses of economic effects.
seven found only positive effects, and four found no effects.\textsuperscript{4} For example:

- In one study, researchers examined job creation tax credits in 45 states from 1991 through 2011. The study found that in states where businesses were eligible for tax credits that exceeded their tax liability, there were positive effects on job growth, but in states that did not allow for the credit to exceed the tax liability, there was no effect on job growth.\textsuperscript{5} This study illustrated how different features of an incentive type may produce different results.

- Another study evaluated the effect of property tax abatement programs across 43 cities and 33 states from 1998 through 2015. It found that tax abatement programs were associated with positive employment growth in cities, but only when the abatement programs were new. The study found no effect on employment growth in cities that already had a tax abatement program in place.\textsuperscript{6} The results of this study varied depending on the tax abatement timeline and the level of geography evaluated.

- Research that examined job creation across multiple states found that business incentives had mixed effects on job creation, depending on the location. A study that examined motion picture incentives provided

\textsuperscript{4}There are multiple reasons why studies reported mixed effects. These included, but were not limited to, the following: the study (1) examined more than one type of business incentive or different features of the same incentive, and found that one type or feature had different effects on job creation from another; (2) found that business incentives had different effects on job creation, depending on the geographic level; (3) examined job creation for different classes of occupations; (4) examined job creation across different industries and found that incentives had different effects across industries; (5) examined job creation across different time horizons (i.e. short-term versus medium-term) and found business incentives had different effects depending on the time horizon examined; and (6) used different data sets to measure job creation and found different effects, depending on the dataset used.

\textsuperscript{5}Tax credits that exceeded a business’s tax liability were known as refundable tax credits. In instances when distinctions between the features of job creation tax credits were not made, the data showed no effect of credits on job growth. Researchers in this study used multivariate regression analysis to compare the effects of tax credits across states. David Neumark and Diego Grijalva, “The Employment Effects of State Hiring Credits,” Industrial and Labor Relations Review, vol. 70, no. 5 (2017).

\textsuperscript{6}The study defines property abatement programs as “new” if they were adopted between the researcher’s study period of 1998—2015. The same study also examined the effect of tax abatement programs on state employment growth and found no effect. Researchers used multivariate regression analysis to examine the effects of property abatement programs. Tammy Leonard et al., “Impact of Property Tax Abatement on Employment Growth,” Economic Development Quarterly, vol. 34, no. 2 (2020).
to the film industry in 46 states from 1998 through 2011 found that motion picture incentives had a positive effect on employment in the film production industry, but only in states with a significant film-industry presence, such as California and New York. Motion picture incentives had a negative effect on employment in the film production industry in other states, such as Georgia, Maryland, and Oregon.\(^7\)

Seven of the 25 studies found that business incentives had positive effects on job creation. For example, in an evaluation of two discretionary grant programs in North Carolina from 1990 through 2008, researchers found positive effects on job creation. The OneNC Fund program provided matching grants to local governments for retention, expansion, and recruitment deals with individual businesses, and the Job Development Investment Grant program provided annual, performance-based grants to a maximum of 25 qualifying businesses. Researchers found that businesses that received either incentive experienced moderate employment growth, even among businesses in the same industry.\(^8\)

Four studies in our literature review reported that incentives had no effects on job creation. For example, in an evaluation of the effect of a cash-payment program in Oklahoma from 1994 through 2005, researchers found no evidence that the program increased the number of jobs in manufacturing or the growth of jobs in manufacturing. The program, known as Quality Jobs, provided cash payments to targeted industries for up to 5 percent of newly created taxable payroll.

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\(^7\)The motion picture incentives used by states included lodging tax exemptions, sales tax exemptions, income tax credits, cash refunds, and cash grants. To study the effects of motion picture incentives, the researcher used multivariate regression analysis and provided descriptive statistics. Charles W. Swenson, “Preliminary Evidence on Film Production and State Incentives,” *Economic Development Quarterly*, vol. 31, no. 1 (2016).

\(^8\)Researchers found that businesses in the life sciences and biomanufacturing and the textiles and nonwovens sectors that received incentives experienced 28 percent faster employment growth compared to businesses that did not receive incentives in the same industry sector. Researchers used multivariate regression analysis and matching methods to compare establishments across North Carolina. T. William Lester, Nichola J. Lowe, and Allan Freyer, “Mediating Incentive Use: A Time-Series Assessment of Economic Development in North Carolina,” *Economic Development Quarterly*, vol. 28, no. 2 (2014).
Researchers studied 600 businesses in 70 communities and focused on employment in the manufacturing sector.\(^9\)

**Increasing wages or income.** Four of the eight studies that examined the effect of incentives on wages or income found that business incentives had mixed effects. For example, in a study that examined a cash subsidy program in Arkansas, researchers found the subsidies had positive, short-term effects on income per capita, but on average did not promote long-term increases in income per capita. The study examined cash subsidies to businesses across 13 counties in Arkansas that were approved by the governor and reviewed by a legislative council from 2007 through 2011.\(^10\) This study illustrated how effects of the cash subsidy may vary, depending on the timeline or program duration evaluated.

Three studies found no evidence that business incentives increased wages or income. For example, a study examining the effect of two incentive programs in Ohio, the local Enterprise Zone program and the Job Creation Tax Credit program, from 2000 through 2004, found that use of both incentives had almost no effect on aggregate wage growth across all industries.\(^11\) One study that examined incentives for the motion picture industry found that states with refundable tax credits saw slight wage increases relative to states with transferable tax credits or no tax credits.

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\(^10\)Subsidies awarded from the Quick Action Closing Fund program bypassed traditional eligibility requirements and were used to attract new businesses or retain existing businesses in Arkansas. Results of this study suggested that the short-term increases in per-capita income were generated by the large gains concentrated in a small number of counties. Researchers in this study used a synthetic control approach, which is an empirical method that is similar to matching method. Jacob Bundrick and Weici Yuan, “Do Targeted Business Subsidies Improve Income and Reduce Poverty? A Synthetic Control Approach,” *Economic Development Quarterly*, vol. 33, no. 4 (2019).

and that this effect decreases with each year that the refundable credit is available.\textsuperscript{12}

**Influencing business location decisions.** Eight of the studies we reviewed evaluated the effect of incentives on business location decisions. Overall, researchers found limited evidence that business incentives affected a business’s decision to locate, expand, or remain in a location. Seven out of eight studies found mixed evidence that incentive use affected business location decisions and one study found that business incentives had no effect on location decisions. For instance, one study examined the effect of business incentives on the number of large and small businesses within a state. Researchers found that incentive use had positive, short-term effects on the number of large businesses but negative, short-term effects on the number of small businesses.\textsuperscript{13} Furthermore, a study of the Promoting Employment Across Kansas program found that incentive use had little effect on the relocation or expansion of businesses in the state.\textsuperscript{14} While many businesses relocated to Kansas from other states, a majority of these businesses had not received any incentives from this program.\textsuperscript{15}


\textsuperscript{13}For the purpose of this study, researchers defined a small business as an establishment with zero to nine employees and a large business as an establishment with over 500 employees. Researchers in this study used multivariate regression analysis and descriptive statistics to study the effects of business incentives. Meg Patrick Tuszynski and Dean Stansel, “Targeted State Economic Development Incentives and Entrepreneurship,” *Journal of Entrepreneurship and Public Policy*, vol. 7, no. 3 (2018).


Appendix IV: Comments from the Department of Commerce

July 14, 2021

Ms. Nadine Raidbard
Assistant Director
U.S. Government Accountability Office
RaidbardN2@gao.gov

Dear Ms. Raidbard:

Thank you for providing me the opportunity to comment on the draft report titled, Economic Development: Opportunities Exist for Further Collaboration among EDA, HUD, and USDA (GAO-21-579). As preliminary matter, I agree with the overall findings of the report that the Economic Development Administration’s (EDA) grants do not, and should not, contribute to state actions that incentivize companies relocating from one state to another. It is a core principle of EDA to create new or expanded business activity by working with state and local governments, Tribes, universities, and non-profits to create the conditions that would attract business, rather than directly subsidizing businesses themselves. Further, EDA has a policy prohibiting the use of its funding to incentivize the relocation of a business from one area to another.

The report discusses a 2016 agreement between EDA and the U.S. Department of Housing and Urban Development (HUD), under which the two agencies developed guidance to grantees to potentially draft strategic planning documents that satisfied both EDA and HUD statutory requirements simultaneously. In this context, the U.S. Government Accountability Office makes two recommendations directly related to EDA and one other recommendation that indirectly relates to EDA, which EDA accepts.

In regard to recommendations 1 and 2, EDA looks forward to further opportunities to collaborate with HUD and the U.S. Department of Agriculture (USDA), including determining whether efforts should be made to expand the guidance to potentially include USDA strategic planning documents (recommendation 1), and evaluating the effectiveness of the HUD-EDA guidance (recommendation 2). Please note that EDA may pursue these activities outside the scope of the original agreement with HUD, as the agreement has generally served its purpose through the issuance of the joint guidance. Further collaboration with USDA and HUD, if appropriate, may take place outside the context of the particular agreement or potentially through a new agreement(s). It is a core business practice of EDA to engage collaboratively with other agencies through EDA’s Economic Development Integration practice, which includes, at times, hosting joint, cross-agency events in communities that are often more useful than the HUD-EDA guidance standing alone. EDA expects to continue these integration practices be they in the context of the particular HUD-EDA agreement or outside it.
Ms. Nadine Raidbard  
Page 2  

As for the recommendation that indirectly relates to EDA (recommendation 5), EDA looks forward to further collaborating with the USDA as it works to identify ways that EDA and HUD can include USDA in collaborative efforts on community and economic development strategic planning.

If you have any questions or concerns, please do not hesitate to contact me or MaryAnn Mausser, Department GAO Audit Liaison, at (202) 482-8120 or by email at mmausser@doc.gov.

Sincerely,

Wynn W. Coggin's  
Acting Chief Financial Officer and  
Assistant Secretary for Administration

Cc: William B. Shear, shearw@ga.gov
Text of Appendix IV: Comments from the Department of Commerce

July 14, 2021

Ms. Nadine Raidbard Assistant Director

U.S. Government Accountability Office RaidbardN@gao.gov

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Sincerely,

Wynn W. Coggins

Acting Chief Financial Officer and Assistant Secretary for Administration

Cc: William B. Shear, shearw@gao.gov
Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Appendix V: Comments from the Department of Housing and Urban Development

July 20, 2021

Ms. Nadine Raidbard
Assistant Director for Financial Markets and Community Investment
Government Accountability Office
441 G St, NW
Washington, DC 20548

Dear Ms. Raidbard:


In June 2021, the Government Accountability Office (GAO) issued the draft report to HUD’s CPD Office for advance review and agency comment. As part of the GAO review of opportunities for interagency collaboration amongst HUD, EDA, and USDA, this draft report outlines the need for improved interagency collaboration to strengthen the impact of Federal resources for economic development.

The GAO draft report provides two recommendations for HUD. Specifically, these recommendations state that: The Principal Deputy Assistant Secretary for CPD at HUD should, in collaboration with the Economic Development Administration (EDA): 1) revisit the two agencies’ interagency agreement on community and economic development planning to align their collaborative efforts based on current priorities and determine the extent to which the U.S. Department of Agriculture (USDA) should be included in the agreement; and 2) monitor progress toward achieving outcomes of the two agencies’ interagency agreement on community and economic development planning.

The report is timely. Historic amounts of funding are being delivered to communities by HUD and other federal agencies to meet the immediate public health and economic crises caused by the pandemic. These are much needed, but many communities are experiencing challenges in spending this funding in a timely manner.

The need for coordination of Federal resources is always important to ensure communities can utilize these resources effectively and impactfully to address their needs. The pandemic has heightened the urgency for coordination as communities face intersecting crises of health and economy and the Federal response has delivered trillions of dollars in response.
The Biden Harris Administration has prioritized a ‘whole of government’ approach. To this end, HUD is engaged in multiple interagency efforts, including regularly-scheduled collaboration efforts with both EDA and USDA among others.

The draft report details concrete steps for improved interagency collaborations to strengthen the impact of Federal resources for economic development, needed urgently as the communities find ways to support local small businesses and create and retain jobs in a post-pandemic economic recovery. The report effectively addressed issues about attribution, broader contextual factors, and key distinctions among agency programs. The points below highlight areas of concurrence and areas needing greater clarification.

GAO Recommendation 3: The Principal Deputy Assistant Secretary for CPD at HUD should, in collaboration with the Economic Development Administration (EDA), revisit the two agencies’ interagency agreement on community and economic development planning to align their collaborative efforts based on current priorities and determine the extent to which the U.S. Department of Agriculture (USDA) should be included in the agreement.

HUD agrees with this recommendation. The MOU was signed in 2016 under both a different Administration and different economic context. In light of the current (and dynamic) circumstances, a revised Memorandum of Understanding (MOU) reflecting the current administration’s priority of economic recovery from the pandemic needs to be integrated. Additionally, HUD is engaged in a number of collaborative efforts with USDA which would benefit from codification in an MOU. Additional interagency partners, including SBA, will be considered.

GAO Recommendation 4: The Principal Deputy Assistant Secretary for CPD at HUD should, in collaboration with the Economic Development Administration (EDA) monitor progress toward achieving outcomes of the two agencies’ interagency agreement on community and economic development planning.

The MOU between HUD and EDA met its intended purpose to create resources coupled with educational outreach to dovetail regional and local coordination. HUD and EDA worked closely together on these documents, which were made available to the public complemented by conventional outreach.

However, the existing MOU did not have a monitoring protocol to designate the accomplishment. A revised MOU will also consider incorporation of outcomes and a monitoring and evaluation protocol.

Additional Points of Concurrence:
1. The draft report highlights an important issue of limited empirical evidence on the impact of state business incentives and associated challenges in evaluating these effects.
2. While there are no current HUD research proposals explicitly focused on economic development at the state level in HUD’s Learning Agenda, an analysis on business...
Appendix V: Comments from the Department of Housing and Urban Development

incentives at the state level can be further explored as part of PD&R’s 2020 Roadmap’s crosscutting focus area of Economic Opportunity.

Technical Corrections and Clarifications:
1. While the report briefly mentions a shift in administration priorities (p. 14), it understates (fails to mention) the major overhaul of priorities to Opportunity Zones with HUD as the lead (coordinating) agency with multiple (18 to be specific) Federal Agencies.

2. The selection (sampling methodology) of four states from the subset of 38 states is not clear. Also, the range selected for the time of projects is narrow with little explanation. During the commenting period, HUD raised this concern, which has not been further elucidated considering HUD’s work in the state of Pennsylvania. A 2012 study commissioned by HUD’s PD&R with the Urban Institute and Econometrica documented notable program outcomes in the state (see report, in particular note Appendix D on Pennsylvania Consortium Projects as it relates to state initiatives). The selected timeline does not capture economic development groundwork which can take time before demonstrating impact.

3. The draft report needs to make the differences between statutory requirements more explicit as the root issue. Presently, it is listed as a minor point (p. 14), but these statutes result in differences in purposes and goals, limitations in how federal funds can be used, and restrictions that prevent the funding of business relocations. Agencies are restricted to statutory requirements and cannot easily address these dimensions of inter-agency collaboration and partnership despite interest in greater alignment.

4. A salient distinction of the CDBG/108 Programs resulting from the Housing and Community Development Act of 1974, which decentralized decision making on the use of funds for communities, a hallmark feature of the landmark legislation. HUD can provide guidance to states and encourages short- and long-term planning of its resources. However, fundamentally, by design, the final determination of use of funds is made at the state or community level. States and communities have significant autonomy and discretion in deciding how to use CDBG/Section 108 funds. While HUD can share best practices from an evidence-based approach, the final decision on use of funds remains with the state.

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Thank you for the opportunity to comment on this draft report. The discussions leading to this draft report have already resulted in thoughtful, internal discussions and renewed dialogue with EDA. We look forward to reviewing the final report.

Sincerely,

JAMES JEMISON
James Arthur Jemison II
Principal Deputy Assistant Secretary
for Community Planning and Development
Text of Appendix V: Comments from the Department of Housing and Urban Development

July 20, 2021

Ms. Nadine Raidbard

Assistant Director for Financial Markets and Community Investment Government Accountability Office

441 G. St, NW

Washington, DC 20548

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Appendix V: Comments from the Department of Housing and Urban Development

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Appendix V: Comments from the Department of Housing and Urban Development

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Sincerely,

James Arthur Jemison II
Principal Deputy Assistant Secretary
for Community Planning and Development

GAO Comments

HUD provided technical comments, which we incorporated as described below.

7. We revised the report to provide more details on HUD’s role in the implementation of Opportunity Zones.

8. We revised the report to clarify our state selection methodology was to select a sample of states to gain an understanding of large state business incentives. The report clearly detailed the methods we took to identify the date range and factors for our selection, so we did not make changes. We also revised our report to clearly note that we reviewed the 2012 HUD study on Section 108 Loan Guarantee program referenced in HUD’s comments. While we did examine the activities funded by this program in our selected states in order to determine if they supported the incentive packages we selected, as we note in the report, we did not include the findings of these studies in our report because they did not evaluate state business incentives.
9. We revised the report to incorporate HUD’s statement on how differing statutory requirements can impact interagency collaboration.

10. We made no changes because the report already explains that local grantees and states decide which activities to fund and have flexibility in that regard, subject to federal eligibility criteria.

11. We made editorial changes to the table for consistency.

12. We revised the table note to reference the public benefit standards applicable to economic development activities funded through the CDBG and Section 108 Loan Guarantee programs.
Appendix VI: GAO Contacts and Staff Acknowledgments

GAO Contact

William B. Shear at (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact named above, Nadine Garrick Raidbard (Assistant Director), Anar Jessani (Analyst in Charge), Chelsea Carter, Caitlin Cusati, Marissa Esthimer, Brian James, John Karikari, Kirsten Noethen, Eric Schwab, Shenandoah Sowash, and Sarah Veale made key contributions to this report.
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