

Uncovering the Facts:

The case for demonstrating accountability
in Washington corporate subsidy programs

by Kathleen Ackley

Washington Citizen Action

Washington Living Wage Movement

Northwest
Federation of
Community
Organizations



January 2001

Support for this report was generously provided by the Ford Foundation's *Collaborations that Count: Working for Democracy in Devolutionary Times*.

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Executive Summary

Sunlight is the best disinfectant: disclosure would promote openness and accountability. To evaluate whether tax incentives serve their ostensible purposes, the public must know, at the least, which corporations received what types of incentives and in what amounts. Only then can the public and the state legislature judge whether benefits of these incentives justify the forgone revenue, whether the benefits are equitably distributed among the corporate community and whether such incentives need to be enhanced, reduced or redirected.

– Economic Policy Institute¹

In 1999, Washington taxpayers spent at least \$1.5 billion on public subsidies for businesses through five state economic development programs.² Because no state agency tracks or records all corporate subsidy expenditures, Washington taxpayers likely spent significantly more than \$1.5 billion on these types of subsidy programs in 1999. Subsidy programs are intended to sustain communities, provide greater access to economic opportunity, and create stable family-wage jobs.³

Because public subsidies to businesses represent a significant expenditure of taxpayer funds – the \$1.5 billion expended on such subsidies in 1999 would have paid the salaries of more than 40,000 teachers – it is critical that they are systematically evaluated to ensure their effectiveness.⁴ Taxpayers want fiscal responsibility from their government and expect that public funds spent subsidizing businesses have tangible benefits to their communities, like the creation of high-wage jobs.

The four state agencies in Washington that administer corporate subsidy programs perform no regular comprehensive analysis of corporate public subsidies. When they do perform ad hoc analyses, they are often insufficient because the state agencies do not have access to the information that would help determine if the subsidy programs are meeting their goals.

This is because businesses that receive public subsidies are generally not required to report the value of their subsidies, the number of jobs they create with the subsidies, whether the jobs are full-time or part-time, or how much they jobs pay. Without this information, it is impossible to know if the tax dollars spent subsidizing businesses result in sustainable communities, greater access to economic opportunity, and stable, family-wage jobs.

Corporate public subsidy programs can play a valuable role in supporting strong economies. If used appropriately, corporate subsidies can help businesses create good jobs that pay enough to

support Washington families. Good paying jobs mean that families can support themselves, avoid public assistance programs, and fully participate in the economy. But, unless the agencies that administer public subsidies can access adequate information, it is next to impossible to gauge program effectiveness.

The Joint Legislative Audit and Review Committee, which performs program audits for the legislature, confirms that the lack of data from businesses is a hindrance to proper program evaluation. Yet, even with the limited information available, the Committee found numerous deficiencies in subsidy programs. In addition, reviews of corporate subsidy programs in other states indicate that some of their programs were not meeting their goals.

Before Washington state agencies can be expected to evaluate their corporate subsidy programs, they must have access to adequate information. The Washington Living Wage Movement and Washington Citizen Action (WCA) recommends that the Washington State Legislature enact a Corporate Disclosure law that will establish reporting requirements for companies who accept public subsidies. If the Corporate Disclosure law is enacted, companies that receive public subsidies will report to the Office of Trade and Economic Development information on:

- The type, public purpose, and amount of all corporate public subsidies received;
- The hourly wage of each job created with the public subsidy dollars;
- Whether the jobs are full-time or part-time;
- Additional necessary information defined in the legislation or requested by the Office of Trade and Economic Development.

A Corporate Disclosure law will allow state agencies to effectively evaluate their corporate subsidy programs.

Introduction

The public subsidies Washington provides to businesses via economic development programs represent a significant portion of the state budget. A preliminary review of the expenditures on corporate subsidies found that more than \$1.5 billion was spent in 1999. Almost certainly, the actual value of these subsidies is larger.

Washington's subsidy programs are intended to sustain communities by providing greater access to economic opportunity and creating stable family-wage jobs. Corporate public subsidy programs can play a valuable role in supporting strong economies. If used appropriately, corporate subsidies can help businesses create good jobs that pay enough to support Washington families.

However, it is difficult to know if Washington's corporate subsidy programs are meeting their intended goals. This is because the agencies that administer public subsidies do not regularly evaluate the effectiveness of the corporate subsidy programs. On the rare occasions when such analyses are done, they are often inadequate because the state agencies do not have access to the information they need to evaluate whether communities are really benefiting from the dollars invested.

A Corporate Disclosure law, similar to the laws passed in three other states, will help state agencies and the legislature determine if the subsidy programs are effective. The Corporate Disclosure law proposed by the Washington Living Wage Movement and Washington Citizen Action will require the Office of Trade and Economic Development information to maintain a list of all public subsidy recipients. In addition, the law will permit state agencies to collect job creation and wage information from the businesses receiving corporate subsidies. This will enable the legislators, state agencies, and the public to evaluate if the programs have met their stated goals and help determine if improvements in the programs are needed.

Corporate public subsidy programs need accountability

Accountability is essential for any program's success. The public must know that programs are meeting targeted goals and that their dollars are being used effectively. The principle of accountability is embodied in Washington law and policy.

Considering this mandate for public accountability, it is alarming that the significant public expenditure for corporate subsidy programs is not systematically evaluated to ensure it is meeting its program goals.

The agencies that administer corporate public subsidy programs do not regularly evaluate their programs. And, even if they attempted to do so, state agencies do not have access to critical information necessary to effectively evaluate the success or failure of the programs.

“For citizens to trust government, they must be confident that public resources are used efficiently, effectively and in keeping with what they expect. They demand and deserve measures of accountability for Washington State Government. The assurance of accountability can be provided by measuring performance of state programs and services and by establishing a regular, comprehensive program of performance audits.” – Washington State Auditor’s Office.

Table 1. Washington State Agency Evaluations

State Agency	Type of subsidy program offered	Regularly evaluate effectiveness of programs?
The Community Economic Revitalization Board	Low-interest loans	No
The Department of Revenue	Tax deferrals, credits and exemptions	No
The Office of Trade and Economic Development	Low-interest loans and grants	No
The Washington Economic Development Finance	Industrial Revenue Bonds	No

State agencies do not systematically evaluate corporate public subsidy programs

Economic development programs that provide corporate public subsidies are administered by four separate agencies in Washington state: the Community Economic Revitalization Board, the Department of Revenue, the Office of Trade and Economic Development, and the Washington Economic Development Finance Authority.⁵ In addition, some local agencies also administer some corporate subsidy programs.

These four state agencies provide Washington businesses with public subsidies worth millions of dollars each year. Yet none have a formal evaluation system with which to gauge the effectiveness of their programs. The only regular evaluations conducted are in the form of annual or biennial reports. These annual reports, which only three of the four agencies conduct, detail agency budgets and provide program overviews. Specific corporate public subsidy programs are not evaluated.

In the last decade, two of the four agencies that oversee economic development programs conducted studies on corporate public subsidies. Five of these were done by one agency: the Department of Revenue.⁶ The Office of Trade and Economic Development did the sixth report.⁷

Table 2. Estimate of Public Subsidies to Corporations in WA, 1999⁸

**Not all the types of corporate public subsidies are listed here. This estimate does not include economic development initiatives sponsored at the county or city level, diversions of the state sales tax for economic development, or public funds spent on job training programs.*

PROGRAM TYPE	VALUE OF SUBSIDY
Tax exemptions	\$1,539.9 million
Low-interest loans	\$3.2 million
Grants	\$2.3 million
Industrial Revenue Bonds	\$14.4 million
TOTAL	\$1.6 BILLION

State agencies do not have sufficient information to effectively evaluate corporate subsidy programs

The Washington Department of Revenue noted “the major difficulty in analysis of [corporate subsidy programs] is that the specific information which is helpful or even necessary to do the analysis is not provided by the firm or is not readily available from other sources.”⁹

Most importantly, because of lack of information, agencies are not able to address the following issues:

- Has the program met its stated goals?
- Which businesses benefited from the program and how did they benefit?
- How has the community benefited from the expenditure of corporate public subsidies?
- What types of jobs were created from the public expenditure?
- Do the jobs pay enough to support a family?
- Do the jobs provide health care and retirement benefits?
- How much money did the company receive per job it created?

In addition, it is important that evaluations of the programs occur on a regular basis. Regular evaluations enable auditors to create benchmarks and meaningfully evaluate the effectiveness of the programs over time.

Evidence from Washington and other states indicates that Corporate Disclosure legislation is needed

State agencies that administer corporate subsidy programs do not have sufficient information to adequately evaluate the success or failure of their programs. However, the limited evaluations that are available indicate that economic development programs suffer from poor administration and lackluster performance at boosting the economy and creating jobs.

In addition, in states where agencies are directed to collect data from businesses that take public money, a mixed picture emerges. Other states' studies show that millions of public dollars have been lost annually to economic development programs that do not work.

The same may be happening in Washington State. Corporate Disclosure legislation will help state agencies evaluate and improve their corporate public subsidy programs. The public deserves to know how their tax dollars are being spent and if the corporate public subsidy programs are working.

Evidence from reports done in Washington point to the need for disclosure.

While the agencies that administer corporate public subsidies do not do any systematic evaluation of their programs, the Joint Legislative Audit and Review Committee (JLARC) and the House Finance Committee have conducted a small number of evaluations of some of these programs. In each case, the committee raised serious concerns about the effectiveness and accountability of the programs evaluated.

The House Finance Committee, which “considers issues relating to state revenues,”¹⁰ has conducted one report in the past decade on corporate public subsidies. The House Committee report focused on the Manufacturer's Sales Tax Exemption passed by the legislature in 1995.

Table 3: Summary of JLARC and House Finance Committee report findings on corporate public subsidy programs

Report name and date	Excerpts from the reports
JLARC "Rural Area Marketing Plan Evaluation Briefing Report," 1999 ¹¹	<p><i>"... Under the most positive possible assumptions, there was no payback to the state in the terms of tax revenue from the job credit program alone... By the fifth year, almost all jobs that were created had disappeared, making a payback impossible."</i>¹²</p> <p><i>"The implementing agency should be directed to collect and report data concerning program outcomes and performance."</i>¹³</p>
JLARC "Rural Natural Impact Areas Programs (RNRIA) Sunset Review", 1999 ¹⁴	<i>The agency "...could improve its method of measuring program costs and performance."</i> ¹⁵
JLARC "Washington Economic Development Finance Authority," 1992 ¹⁶	<i>"None of the three [economic development] programs... has enhanced economic development by guaranteeing loans or issuing bonds."</i> ¹⁷
JLARC "Community Economic Revitalization Board Sunset Review," 1992 ¹⁸	<i>"...inadequate job of defining appropriate outcome measures and regularly collecting data. This has led to the inaccurate use of data and the difficulty in assessing the impact of CERB projects."</i> ¹⁹
House Finance Committee "Economic Impacts of the Manufacturer's Sales Tax Exemption," 2000	<i>"...with the exception of the Electrical and Electronic Equipment Group, it does not appear that Washington's share of manufacturing employment after the adoption of the exemption increased over the amount that would have occurred had the trend of previous years continued."</i> ²⁰ [This exemption alone was worth \$191.6 million in 2000 and will increase to \$214.6 million by 2003. ²¹]

Evidence from other states points to the need for disclosure

In other states that have more rigorous reporting requirements than Washington, analysis reveals that some corporate subsidy programs are a drain on the public coffers and produce little in the way of tangible benefits to communities.

Table 4: Findings of studies in states with corporate disclosure laws

State, report name, and date	Key findings from the report
Minnesota “Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards,” 1999.	Data from companies receiving corporate public subsidies show that less than a third of corporations in the state who benefit from corporate public subsidies pay more than \$10 an hour. ²² “The subsidies show no positive relationship to wages, and some [subsidy programs] are simply subsidizing corporate relocations within the state.” ²³
Connecticut “Connecticut’s Economic Development Programs: High Cost and Inadequate Job Expansion,” 2000.	Information collected shows that two-thirds of subsidized Connecticut companies have failed to achieve their job-creation goals. The data also shows that the state provided corporate subsidies to 56 companies at a cost of \$100,000 or more per job. ²⁴
Maine “Economic Development Subsidies in Maine: Modest Job Gains at High Cost,” 1999.	Data collected on businesses receiving public subsidies reveals that subsidized companies are growing more slowly than the state’s employers overall, rais-

Because Washington does not yet have a Corporate Disclosure law, there is no way to know if Washington’s public subsidy programs are meeting or missing their goals like the programs in Minnesota, Connecticut, and Maine. However, the experiences of other states, as well as the limited information available from audits of Washington corporate subsidy programs, indicate that more analysis of these programs are needed.

A Corporate Disclosure law will enable state agencies to collect sufficient information and effectively evaluate their corporate public subsidy programs. With this information, the legislature can make informed decisions about how to best invest taxpayers dollars in corporate subsidy programs.

Solution: Passage of a Corporate Disclosure Law

Every state in the nation operates programs that provide businesses with public dollars. These programs are intended to aid economic development, provide greater access to economic opportunity, and create stable family-wage jobs.²⁶ In Washington state, despite the widespread use of corporate subsidies, little is known about their success rate in creating new jobs for the community.

Other states have passed Corporate Disclosure laws to help state agencies find out how public subsidies are used and measure their impact on a community's economy. Corporate Disclosure laws ensure that corporate public subsidy dollars are spent wisely and benefit the community by creating family-wage jobs.²⁷ Washington spends a significant amount of public resources on corporate public subsidies – at least \$1.5 billion last year alone – yet has no Corporate Disclosure law to ensure that these dollars are being spent in the public interest.

For this reason, the Washington Living Wage Movement and Washington Citizen Action recommend that the legislature adopt Corporate Disclosure legislation. This legislation will empower state agencies to collect information from businesses that receive public subsidies. This will enable administering agencies to evaluate if the public subsidies are meeting the goals of the programs. In addition, the bill requires state and local agencies to report the public subsidies they distribute to CTED (Washington's Department of Community, Trade, and Economic Development) each year. This will allow CTED to publish a comprehensive report on the value of the all business subsidies and what types of jobs these subsidies are creating.

Washington taxpayers are the owners of Washington government. They deserve to know how a significant portion of their tax dollars is being spent. Three other states have passed Corporate Disclosure laws to help their state agencies effectively evaluate their corporate public subsidy programs. Washington should do the same to ensure that these programs result in tangible benefits for the community.

Section VI: Endnotes

¹ Richard Pomp, “Corporate Tax Policy and the Right to Know,” Fiscal Policy Institute, Albany, NY, December 1993, p. v, vi.

² These five programs are: 1. Tax exemptions through the Department of Revenue. 2. Low-interest loans and grants through the Community Economic Revitalization Board. 3. Low-interest loans through the Office of Trade and Economic Development’s Community Development Finance Program. 4. Industrial Revenue Bonds issued by the Washington Economic Development Finance Authority. 5. Low-interest loans and grants through the Community Development Block Grant Program through the Office of Trade and Economic Development.

³ RCW 43.330.005 Intent.

⁴ Based on an average annual salary of \$38,530. American Federation of Teachers, AFL-CIO, “1999 Salary Survey,” Department of Research, Table I-1, Washington, D.C., 1999, <www.aft.org>.

⁵ This list is not exhaustive. County and city governments as well as local development councils also administer corporate public subsidies.

⁶ The 155 tax credits, exemptions and deferrals are economic and agricultural. See Washington Department of Revenue, “Tax Exemptions 2000,” Olympia, Washington, January 2000. The following four reports were conducted by the Washington Department of Revenue since 1990: “Manufacturing Tax Study,” 1994; “Tax Incentive Programs: Evaluation of Selected Tax Deferrals, Exemptions and Credits for Manufacturers,” 1996; “Sales Tax Deferral Report Covering Fiscal Years 1994, 1995 and 1996,” 1997; “Tax Incentives for High Technology Businesses,” 1997; and, “Warehouse and Distribution Study,” December 1996. The 1996 “Warehouse and Distribution Study” examined a tax exemption that is no longer available in Washington.

⁷ According to Jim Keogh, Business Finance Unit Manager for the Office of Trade and Economic Development, the agency conducted a study of the Community Development Finance Program in 1992. Personal communication, November 28, 2000.

⁸ Figures for corporate public subsidies taken from the following sources:

Tax Exemptions: Washington State Department of Revenue, “Tax Exemptions 2000,” Olympia, WA, January 2000. Includes all exemptions under the “economic development” and “agriculture” categories except for the following: Waiver, Y2K Penalties; Growing Crops; Nursery Stock; Forest Land, Statutory Values; Current Use, Farm Land; Seed Conditioning; Hay Cubing; Conditioning of Seed; Agricultural Fairs; Shared Real Estate Commissions; Credit Unions, State Charter; \$28,000 Minimum for Filing; Waiver of Penalties, Y2K; Funeral Home Reimbursement; Conservation and Habitat; Farm Auction Sales; Leased Irrigation Equipment; and, Lost/Destroyed Fuel. The figure was arrived at by summing the 1999-2001 biennium figure for state and local impact to taxpayers and then dividing that figure in half to approximate the value for a single year.

Community Economic Revitalization Board Low-interest Loans: Community Economic Revitalization Board, “All Project Status,” Olympia, WA, September 2000. There is an additional \$20.4 million in outstanding loan balances. Community Economic Revitalization Board Grants: Community Economic Revitalization Board, “All Project Status,” Olympia, WA, September 2000.

Community Development Finance Low-interest Loans: Office of Trade and Economic Development, “28 Projects to Private Businesses for Fiscal Years 1998, 1999 and 2000,” Olympia, WA, November 7, 2000. There is an additional \$5.3 million in outstanding loan balances.

Industrial Revenue Bonds: Washington Economic Development Finance Authority, “1999 Annual Report: WEDFA Bond Transactions,” Seattle, WA, December 1999

Community Development Block Grant. A small portion of Washington’s state sales tax is diverted back to cities and counties to be spent on economic development programs (mainly tourism). Rick Peterson, House Finance Committee, November 20, 2000, personal communication.

⁹ Washington Department of Revenue, “Tax Incentives for High Technology Businesses,” 1997, <<http://dor.wa.gov/reports/tip/chapter3.htm>>.

¹⁰ House of Representatives, House Finance Committee website, n.d., <<http://www.leg.wa.gov/house/opr/fin/finanrpt.htm>>.

¹¹ Legislative Audit and Review Committee, “Rural Area Marketing Plan Evaluation Briefing Report 99-10,” Olympia, Washington, November 10, 1999.

¹² Joint Legislative Audit and Review Committee, "Rural Area Marketing Plan Evaluation Briefing Report 99-10," Olympia, Washington, November 10, 1999, p. 2.

¹³ Joint Legislative Audit and Review Committee, "Rural Area Marketing Plan Evaluation Briefing Report 99-10," Olympia, Washington, November 10, 1999, p. 2.

¹⁴ Joint Legislative Audit and Review Committee, "Rural Natural Impact Areas Programs (RNRIA) Sunset Review Report 99-8," Olympia, Washington, September 15, 1999.

¹⁵ Joint Legislative Audit and Review Committee, "Rural Natural Impact Areas Programs (RNRIA) Sunset Review Report 99-8," Olympia, Washington, September 15, 1999, p. 2.

¹⁶ Joint Legislative Audit and Review Committee, "Washington Economic Development Finance Authority, Olympia, Washington, November 20, 1992.

¹⁷ Joint Legislative Audit and Review Committee, "Washington Economic Development Finance Authority, Olympia, Washington, November 20, 1992, p. vii.

¹⁸ Joint Legislative Audit and Review Committee, "Community Economic Revitalization Board Sunset Review Report 92-6," Olympia, Washington, September 16, 1992.

¹⁹ Joint Legislative Audit and Review Committee, "Community Economic Revitalization Board Sunset Review Report 92-6," Olympia, Washington, September 16, 1992, p. vii.

²⁰ House Finance Committee, "Economic Impacts of the Manufacturer's Sales Tax Exemption," Olympia, Washington, January 31, 2000, p. 28."

²¹ Washington Department of Revenue, "Tax Exemptions 2000," Olympia, Washington, January 2000, p. 168.

²² Greg LeRoy, "Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards," Good Jobs First, Washington D.C., February. 1999, p. 9.

²³ Greg LeRoy, "Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards," Good Jobs First, Washington D.C., February. 1999, p. 9.

²⁴ Marc Breslow, "Connecticut's Economic Development Programs: High Cost and Inadequate Job Expansion," Commonwealth Institute, Cambridge, Massachusetts, February, 2000.

²⁵ Marc Breslow, "Economic Development Subsidies in Maine: Modest Job Gains at High Cost," Commonwealth Institute, Cambridge, Massachusetts, December 15, 1999.

²⁶ RCW 43.330.005 Intent.

²⁷ Personal communication, Sarah Hinkley, Good Jobs First, December 7, 2000.

About the Organizations Releasing this Report:

Washington Citizen Action (WCA) is a social and economic justice organization with over 50,000 individual members statewide. In addition to its dynamic grassroots membership, WCA also includes permanent coalition partners from other community organizations, labor, senior, religious and people of color organizations. WCA has both a legislative and non-legislative issue agenda that focuses on increasing access to health care and living wage jobs.

Washington Living Wage Movement: The Washington Association of Churches (WAC), Washington Citizen Action Education and Research Fund (WCA), and the Washington State Labor Council (WSLC) have begun a long-term effort to develop a permanent Living Wage Movement in Washington State. The Living Wage Movement brings together a new coalition of organizations with a diverse constituency base in Washington state. In the past two years, over 400 organizations have expressed a commitment to work together to promote living wage jobs and fight for positive social change.

The Northwest Federation of Community Organizations (NWFCO) is a regional federation of five statewide, community-based social and economic justice organizations located in the states of Idaho, Montana, Oregon and Washington: Idaho Community Action Network (ICAN), Montana People's Action (MPA), Oregon Action (OA), Washington Citizen Action (WCA) and Coalition of Montanans Concerned with Disabilities (CMCD). Collectively, these organizations engage in community organizing and coalition building in fourteen rural and major metropolitan areas, including the Northwest's largest cities (Seattle and Portland) and the largest cities in Montana and Idaho.

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