Evaluating Workforce Development Incentives

With:
Ellen Harpel, *Founder, Smart Incentives*
Ellen Miller, *Chief Economic Development and Quantitative Analyst, Virginia Joint Legislative Audit and Review Commission*

August 20, 2024

Pew

Evaluating Workforce Development Incentives

ELLEN HARPEL

THE PEW CHARITABLE TRUSTS

AUGUST 2024

SMART INCENTIVES
SOUND DECISIONS

Why do we use incentives?

To achieve our community's economic development goals

- Jobs
- Worker training
- Business development
- Investment
- Downtown revitalization
- Brownfield redevelopment
- Quality of life and quality of place
- Strengthen tax base

Incentives are not just about winning a deal. Smart incentive use is always connected to a larger economic development strategy.

© 2024 SMART INCENTIVES

Goals for workforce incentives

Invest in yourself

- Incentives that benefit residents as well as businesses
- Help create a competitive environment

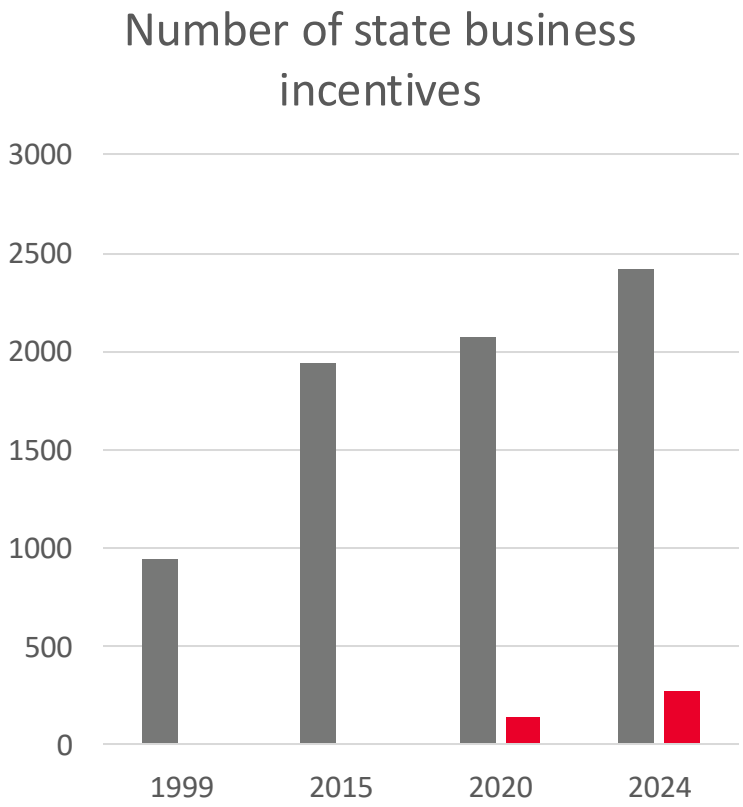
Address the #1 business need – skilled and available workforce

Provide opportunities for individuals

- Develop and retain skilled talent in the community
- Offer career path opportunities
- Create employment opportunities for specific populations
  - Individuals with disabilities
  - Veterans
  - Ex-offenders/previously incarcerated
  - Substance use disorder (SUD) crisis response – recovery and reentering the workforce

© 2024 SMART INCENTIVES

Incentive program trends



2020: 137 workforce & training programs

2024: 277 workforce & training programs

- 88 are tax incentives

- Approximately 10% seek to address individual barriers to employment

Source: Council for Economic Research (C2ER) State Incentives Database

© 2024 SMART INCENTIVES

Required by the NYS legislature

Independent analysis of tax incentives used to increase economic development

Led by the Department of Taxation & Finance

Economic development=efforts to increase employment, develop the state's workforce, and increase business activity

Economic Impact of Tax Incentive Programs

New York State
Department of Taxation and Finance

December 30, 2023

PFM Group Consulting LLC
BNY Mellon Center
1735 Market Street
42nd Floor
Philadelphia, PA 19103

In conjunction with:
MFR Consultants Inc.
Fourth Economy Consulting
The Center for Regional Economic Competitiveness
Smart Incentives

© 2024 SMART INCENTIVES

Incentives Evaluated

Entertainment Tax Credits
- Film Production
- Film Post-Production
- Commercial
- NYC Musical and Theatrical
- Empire State Musical and Theatrical

Employment and Investment
- Excelsior Jobs Programs
- Employment Incentive and Investment

Other Empire State Development Tax Credits
- Empire State Jobs Retention
- Life Sciences
- Restaurant Return to Work
- Economic Transformation and Facility Redevelopment
- Start-up NY

Other Dept. of Taxation & Finance Tax Credits
- Alcoholic Beverage Production
- Biofuel Production
- NYC Unincorporated Business
- Qualified Emerging Company Capital
- Qualified Emerging Technology Company Employment

Real Estate and Land Use
- Brownfields
- Historic Property Rehabilitation

Worker-Specific Tax Credits
- Employee Training Incentive
- Empire State Apprenticeship
- NY Youth Jobs Program
- Hire a Veteran
- Employment of Persons with Disabilities
- Workers with Disabilities

© 2024 SMART INCENTIVES

Approach

Detailed information request to each administering agency

Interviews

Data analysis

Follow up questions – mixed response

Comparison to similar programs in other states

Best practices research

Economic impact analysis using IMPLAN (Fourth Economy)

© 2024 SMART INCENTIVES

	Empire State Apprentice ship	Employee Training Incentive	NY Youth Jobs	Employ-ment of Persons with Dis-abilities	Hire a Veteran	Workers with (Develop-mental) Dis-abilities
Start Year and Agency	2018 DOL	2015 Empire State Develop-ment	2011 DOL	1998 DOL	2014 Taxation & Finance	2015 DOL
2019 Credits Claimed	$518,000	$15,145	$45.9 m	$65,027	$15,051	0 OR $14,177 (2017-19)
2019 Taxpayers Using Credit	31	3	646	34	9	0 or 12

© 2024 SMART INCENTIVES

	Empire State Apprentice ship	Employee Training Incentive	NY Youth Jobs	Employ-ment of Persons with Dis-abilities	Hire a Veteran	Workers with (Develop-mental) Dis-abilities
Maximum credit	$7,000 per apprentice	$10,000 for skills training/ $3,000 for interns	$7,500 per FT or $3,750 PT employee	$2,100 per employee	$20,000 per veteran	$5,000 maximum per FT employee
Number of jobs	257 apprentice-ships (2018-22)	63 - mostly interns (2018-23)	254,000 (2018-22) 88% PT	34 or 856?	Not known	Not known
Credit use/credit awards	72/150 (2018-20) 48%		646/1,076 (2019) 60%	34/856 (2019) 4%		No credits awarded but credits reported used

© 2024 SMART INCENTIVES

Measuring ROI for workforce incentives

Effect on tax revenues - does the incentive pay for itself?

- Should workforce incentives be considered a success only if they return more tax dollars than the cost?

Other quantitative benefits

- Primarily job creation and labor income (direct, indirect, induced)

Other qualitative benefits or positive externalities

- Help businesses address talent needs
- Improve individual earnings and and career path potential.
- Expose young workers to career options/provide experience
- Hire specific populations experiencing high unemployment with barriers to employment

Would similar job creation have occurred without the state tax Incentive?

© 2024 SMART INCENTIVES

Modeled ROI by program

	Fiscal return to NYS (direct impact)	Fiscal return to NYS (direct, indirect, induced impact)	Total jobs impact (direct, indirect, induced) 2018-22
Empire State Apprenticeship Tax Credit	$0.52/$1.00	$1.02/$1.00	513
NY Youth Jobs Program Tax Credit	$0.27-$0.42/$1.00	$0.50-$0.65/$1.00	5,102
E-TIP	$0.12- $2.35/$1.00	$0.22-$4.53/$1.00	109

© 2024 SMART INCENTIVES

Data Challenges

Complete tax data available only through 2019 for 2023 study

- lag in actual collections data relates to filing deadlines and extensions related to the NYS corporate franchise tax

Lack of data (in some cases) on jobs, wages or industry to estimate ROI

Inability to access tax form data that would have provided more insight into how the credit is used

Comparing tax credit award data to tax credit use data

Complicated tax and program rules

Difficult to get answers to questions

© 2024 SMART INCENTIVES

Lessons Learned

What we really want to know is long term effects – are the workers better off? Data collected is not consistent with stated goals

Program data may not be sufficient to answer questions about impact. Academic research helps fill the gaps.

Often a big difference between number of taxpayers certified to use the tax credit and those actually taking the tax credit – what does this tell us about effectiveness?

In many cases, we think these programs would be better structured as grants than tax credits

© 2024 SMART INCENTIVES

To access the full report:

https://www.tax.ny.gov/pdf/research/economic-impact-of-tax-incentive-programs.pdf

© 2024 SMART INCENTIVES

Contact

Ellen Harpel
President

571/212.3397

ellen@smartincentives.org
http://www.smartincentives.org/

© 2024 SMART INCENTIVES

JLARC
JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION

August 20, 2024



Workforce and Small Business Incentives

JLARC evaluation of economic development incentives

- Appropriation Act directs JLARC to evaluate economic development incentives on ongoing basis
  - Spending and business activity
  - Economic benefits
  - Effectiveness
- JLARC contracting with Weldon Cooper Center to assist with evaluations

2018 Appropriation Act, Item 31(F).

Presentation focuses on three incentives we evaluated in 2018

Incentive	Amount spent FY10-FY17
Virginia Jobs Investment Program (VJIP)	$46.5 M
Small Business Jobs Grant	2.5
Worker Retraining Tax Credit	1.3

Economic benefit relative to other incentives reviewed.

Virginia Jobs Investment Program is state's largest workforce incentive

- Purpose: Encourage business location and expansion in state to support job creation
- Use: Offset costs of recruiting and training for new jobs
- Eligibility*: Traded sector businesses with minimum of $1M capital investment and 25 new jobs that pay 135% of FMW ($9.79)
- Average grant: $100,267 per project or $695 per job

*Reduced to 5 new jobs and $0.1M capital investment if small business.

VJIP also has 'retraining' subprogram

- Purpose: offset costs of Virginia businesses to retrain existing employees because new technology or equipment was installed
- Eligibility: 10 jobs retrained and $0.5M capital investment (or 5 jobs retrained and $0.05M capital investment if small business)

Retraining subprograms do not require new job creation.

Virginia also offers the Small Business Jobs Grant

- Purpose: Encourage small business location and expansion in state to support job creation
- Use: Offset costs of recruiting and training for new jobs
- Eligibility: Traded sector businesses with minimum of $0.1M capital investment and 5 new jobs that pay 135% of FMW ($9.79)
- Average grant: $54,517 per project or $844 per job

Since 2017, targeted to businesses with 50 or fewer employees.
Administered by the Department of Small Business and Supplier Diversity.

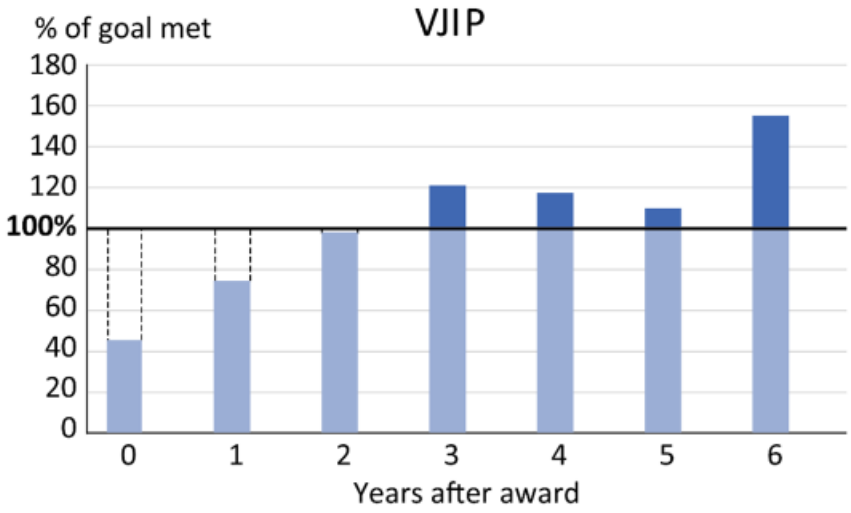
Effectiveness of programs evaluated in several ways

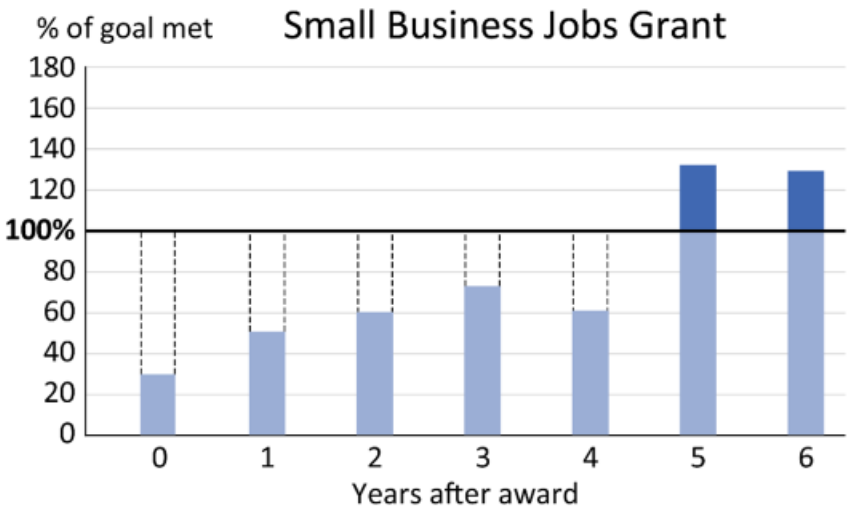
- Did projects meet their job creation goals?
- Did grants influence business location/expansion decisions?
- Did grants encourage additional training or result in other workforce benefits?
- What economic benefit do the programs provide to the state?

Finding

VJIP and Small Business Jobs Grant have mixed success in achieving their purpose to encourage business location and expansion in the state and support job creation.

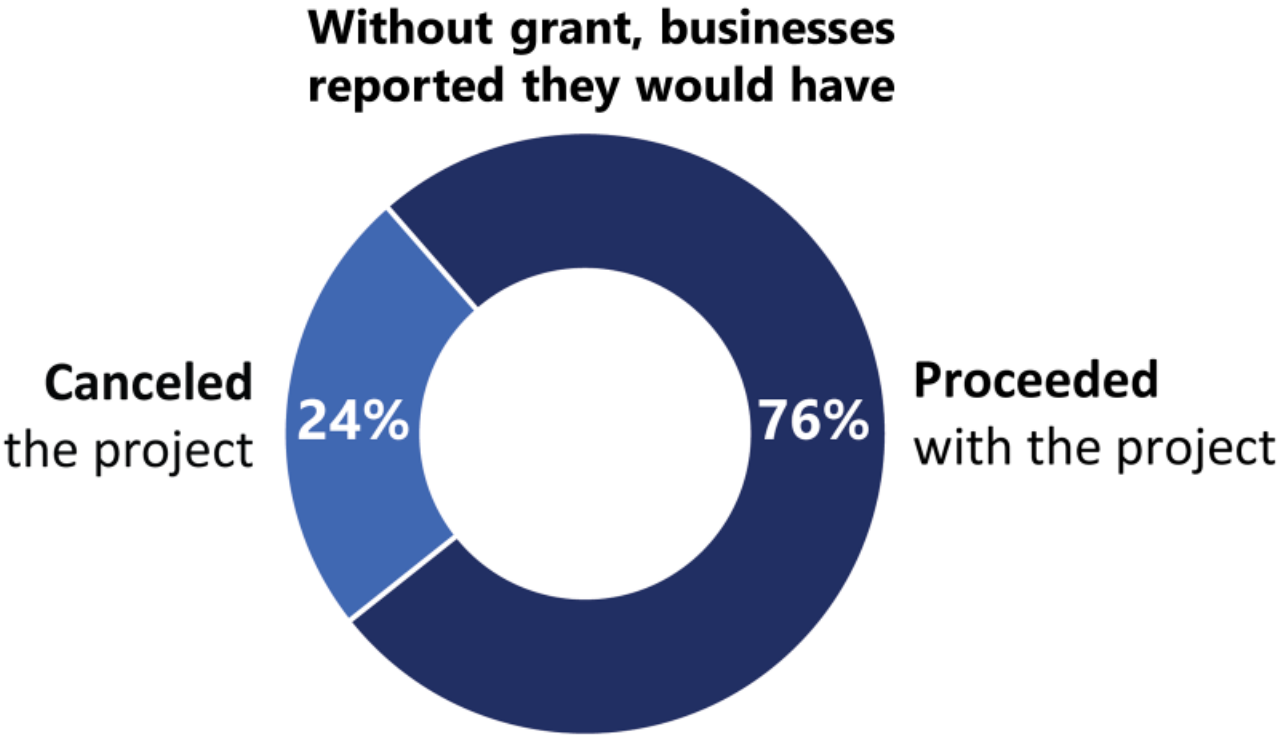
Over time, VJIP and Small Business Jobs Grant programs exceed employment goals





Includes completed projects receiving grants between FY10 and FY17.

VJIP and Small Business Jobs Grant are not critical factors for most business locations or expansions



Weldon Cooper Center survey of businesses, 2018.

Grant recipients reported grants had other benefits

- 62 percent of respondents said grant was very important in allowing them to train workers
- Respondents reported the training resulted in improvements to firm and workers*
  - Increased employee knowledge (78 percent) and skills (70 percent)
  - Improved quality/accuracy (61 percent)
- 24 percent of firms reported trained workers received an increase in wages (10 percent average increase)

*Top three out of 11 options.

Additional performance measures for retraining would improve evaluations

- Programs only collected number of workers retrained
- Recommendation: collect additional metrics such as
  - number receiving industry-recognized credentials
  - amount of wage increase for trained workers

Virginia also provides a relatively small Worker Retraining Tax Credit

- Purpose: Encourages businesses to retrain workers for purposes of economic growth
- Credit amount: 30 percent of qualified training expenses, capped at $200 per student and $2.5 million annually
- Eligibility: businesses retraining workers through noncredit community college courses or apprenticeship programs
- Expiration: 2022

Effectiveness of credit evaluated in several ways

- Are businesses utilizing the credit, and if not, why?
- Is the credit encouraging businesses to retrain workers?
- What economic benefit did the credit provide to the state?

Finding

Worker Retraining Tax Credit has not been fully utilized and has not encouraged businesses in the state to retrain workers.

Worker Retraining Tax Credit has not been fully utilized (FY10-FY17)

- $1.3 million claimed is less than 10 percent of amount that could have been claimed
- Amount claimed per year has varied from low of $30,000 to high of $230,000
- Low utilization may occur for several reasons
  - Lack of awareness of tax credit
  - Credit amount per employee may be too low
  - Businesses may lack tax liability to claim it

Worker Retraining Tax Credit does not appear to encourage retraining

- Nearly all (99%) of tax credit amount used for apprenticeship program trainees
- Number of apprentices in Virginia has not increased markedly (3%) since tax credit became effective
- Research suggests number of apprentices is mostly influenced by changes in business activity and job openings

Finding

The Worker Retraining Tax Credit has a negligible economic benefit and return in revenue for the state.

Worker Retraining Tax Credit has negligible economic benefit and return in revenue (FY10-FY17)

	Economic benefit per $1M of tax credit			Return in revenue
	 Jobs	 State GDP	 Personal income	 Revenue per $1 spent
Worker Retraining Tax Credit	**25**	**$3.0M**	**$1.9M**	**12¢**
VJIP	263	$35.5M	$21.8M	$1.04
Small Business Jobs Grant	310	$46.0M	$23.8M	$1.14

VJIP and Small Business Jobs Grant had moderate economic benefits and returns in revenue.

Recommendation

The General Assembly may wish to consider eliminating the Worker Retraining Tax Credit.

JLARC info for this report

Ellen Miller, Chief Analyst
ejmiller@jlarc.virginia.gov

Incentive reports landing page

jlarc.virginia.gov/econ-development.asp

Questions?

Ellie Gray
Egray@pewtrusts.org
The Pew Charitable Trusts

Pew