

INCENTIVE ADJUSTMENTS - IMPLICATIONS FOR REPORTING AND EVALUATION: GUIDANCE ON DOCUMENTING PROGRAM CHANGES

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State economic development organizations (EDOs) have adjusted incentive [agreements](#), [programs](#), and [operations](#) to address the economic threats posed by the COVID-19 downturn. The growing demand for incentive project accountability combined with the legislative push for more formal incentive program evaluations means that EDOs will likely be called on to explain why changes were made and what those changes accomplished. Unfortunately, incentive adjustments will complicate established project reporting and program evaluation procedures.

How should state economic development organizations prepare? Leaders can take some basic steps now to document incentive changes and lay the groundwork for quality reporting and assessment down the road.

Reporting and Evaluation Basics

- **Reporting:** Most stakeholders want to know who received incentives, how much they received, and what was gained by providing the incentive. Some interested parties will have more detailed or technical questions, but reporting should cover at least these three points.
- **Outcome evaluations:** This type of assessment emphasizes understanding whether a program is successful in achieving desired outcomes. An outcome evaluation generally deals with issues of effectiveness and cost.
- **Process evaluations:** This type of assessment emphasizes understanding why a program is or is not successful. A process evaluation generally deals with issues of compliance, procedures, policies and efficiency. A key question often is whether a program was implemented as planned or whether program adjustments aligned with shifts in policy objectives.

PRINCIPLES/GROUND RULES

From the Guide to Help States Adjust Incentive Performance Agreements in Response to the Current Economic Crisis (May 2020):

Economic development organizations should make clear the rationale and rules for adjusting existing incentive performance agreements, following existing procedures where possible. A well-defined structure for making decisions will help staff, stakeholders, and businesses navigate the process in the near-term and build confidence that public funds are being managed responsibly.

From Guidance on Adjusting Discretionary Incentive Programs to Support Small Business Recovery (July 2020):

Economic development organizations should document the rationale and rules for expanding or adapting incentive programs to address the needs of small or local-serving businesses in response to the COVID-19 pandemic, including the recognition that these new policy priorities may be short-lived with a pre-planned expiration triggered once the economy begins to rebound.

CHECKLIST OF QUESTIONS

- What was the rationale for the program or agreement change? How is the rationale linked to other government decisions, orders, or legislation related to the recovery and/or COVID-19 response?
- Have stakeholders been informed of the incentive adjustments? How have legislative leaders (especially those with oversight responsibilities), executive branch partners (especially those involved in program implementation), and state evaluators or auditors been briefed?
- How have program adjustments been documented? How can those sources be accessed? Does the documentation address most or all of the following questions?

Outcomes

- What economic development goal is the change intended to achieve? Has that goal evolved because of the COVID-19 crisis? Is the goal specific and measurable?
- How will the incentive agreement or program modifications help the state progress toward its goals?
- How will outcomes or progress be measured? What are the performance metrics? How will the data be collected?

Process

- Under what authority or oversight were changes made? Were established procedures for amending agreements or making program changes followed? If not, why not?
- What changes were made, if any, to eligibility rules, application procedures, review or underwriting processes, outreach activities, partner arrangements, or recipient reporting forms?
- What safeguards were put into place to manage the fiscal costs and protect the public interest? Examples might include caps on program spending or individual awards, pay-for-performance requirements, cost-benefit analyses or fiscal notes, and sunset dates.

Reporting

- Who on staff is responsible for collecting and analyzing activity and performance data?
- Which information can be shared with evaluators and other stakeholders? How will information be shared?
- Will there be a formal, publicly accessible report? How and when will it be made available?

Economic development return on investment

Incentives should generate a return to the state. In contrast to the private sector, economic development return on investment (ROI) comprises more than financial (or fiscal) return.

Economic development ROI should incorporate social, economic, and fiscal benefits and should account for other non-quantifiable project criteria that reflect public policy objectives.

FOR MORE INFORMATION

- [State Economic Development Executives Network](#) - Members can access relevant documents under "Topic Areas"

National Conference of State Legislatures

- [National Program Evaluation Society - Community and Economic Development Library](#)
- [State Tax Incentive Evaluations Database](#)
- The Pew Charitable Trusts - [Economic Development Tax Incentives](#)
- Smart Incentives - [Resources](#) and [Blog](#)
- [Center for Regional Economic Competitiveness - Resources](#)

ABOUT THIS SERIES

In the economic crisis brought on by the coronavirus and COVID-19 public health concerns, State economic development executives are considering significant questions regarding incentives: how to adjust existing incentive agreements to increase flexibility for companies and investors in a fair manner; and how best to use incentive programs to help their states respond to the challenge. A coherent set of principles and approaches around adapting incentive use can help states respond strategically rather than on an ad hoc or case-by-case basis.

This document is the third in a series of guidance papers. Please also see:

- Adjusting Performance Agreements — [Guide to Help States Adjust Incentive Performance Agreements in Response to the Current Economic Crisis](#) was released May 2020.
- Small Business Assistance — [Guidance on Adjusting Discretionary Incentive Programs to Support Small Business Recovery](#) was released July 2020.