Tax Expenditure Evaluation in Colorado

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Agenda

- Why evaluate tax incentives?
- National context for evaluation
- Colorado's tax expenditure evaluation legislation
- How states have used evaluations to inform policy decisions

Why evaluate tax incentives?

Why evaluate tax incentives?

- Tax incentives are one of states' primary economic development tools
- Tax incentives collectively cost states billions of dollars per year
- Evaluation is a proven way to improve the effectiveness of incentives

With evaluations, states can…

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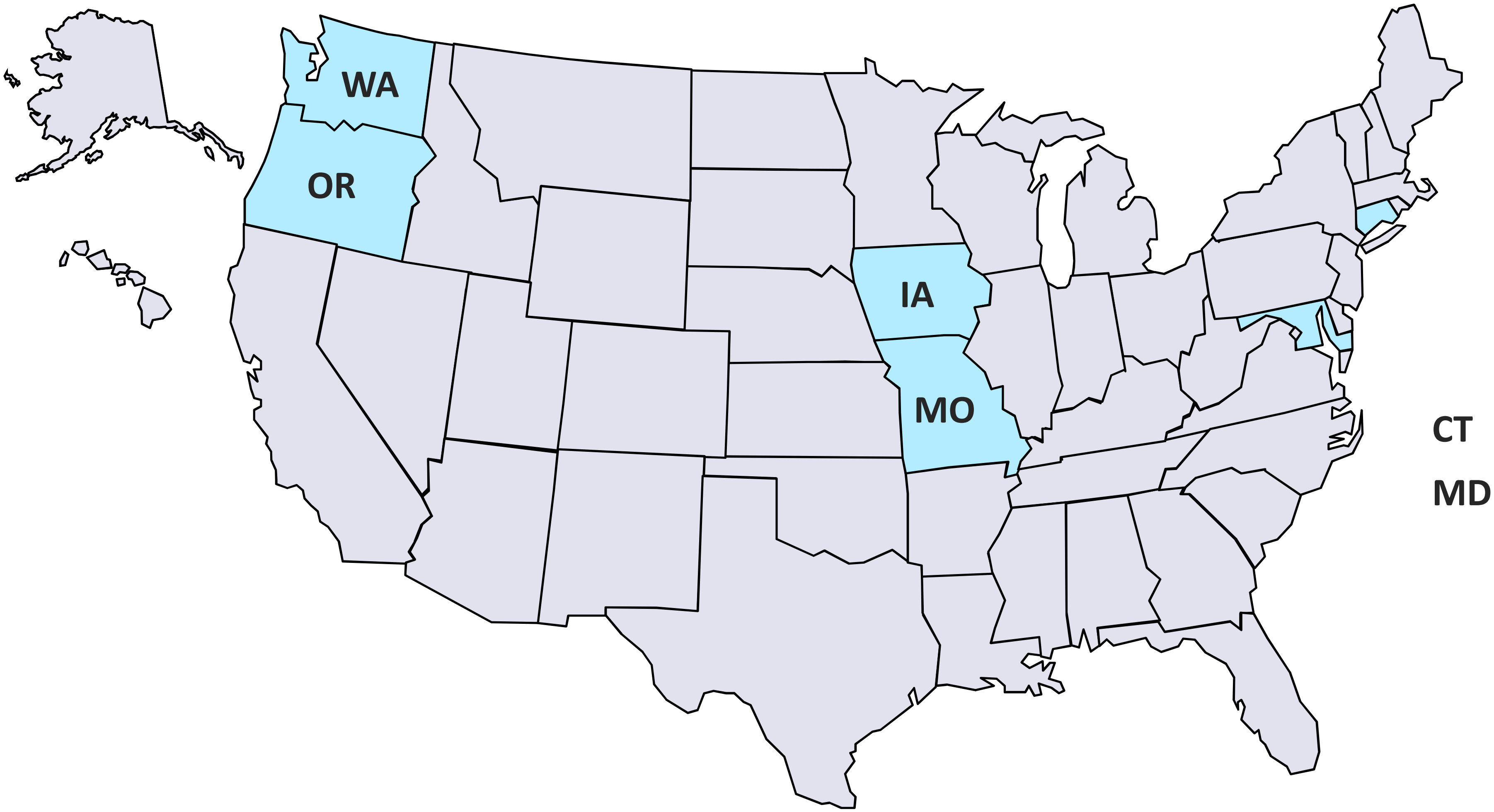
- Identify programs that are working well, so that the state can invest in them with confidence
- Make subtle changes to incentives to increase their return on investment
- Repeal or replace ineffective or obsolete incentives
- Analyze whether incentives are serving the needs of beneficiaries
- Have a more constructive conversation about incentives

Evaluation in the states

The Changing Landscape of Incentive Evaluation – Pre-2013



The Changing Landscape of Incentive Evaluation - 2019

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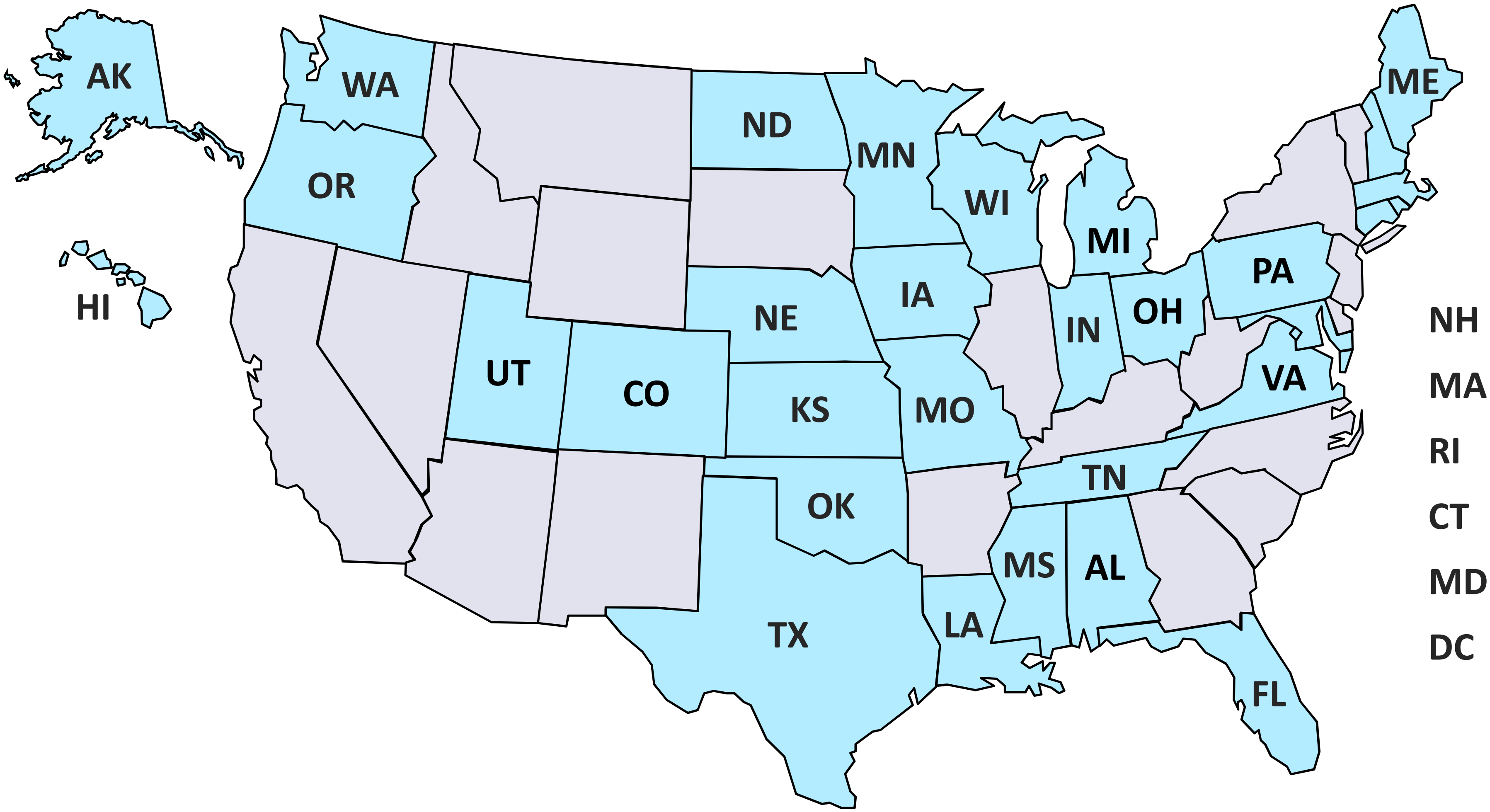

State evaluation offices

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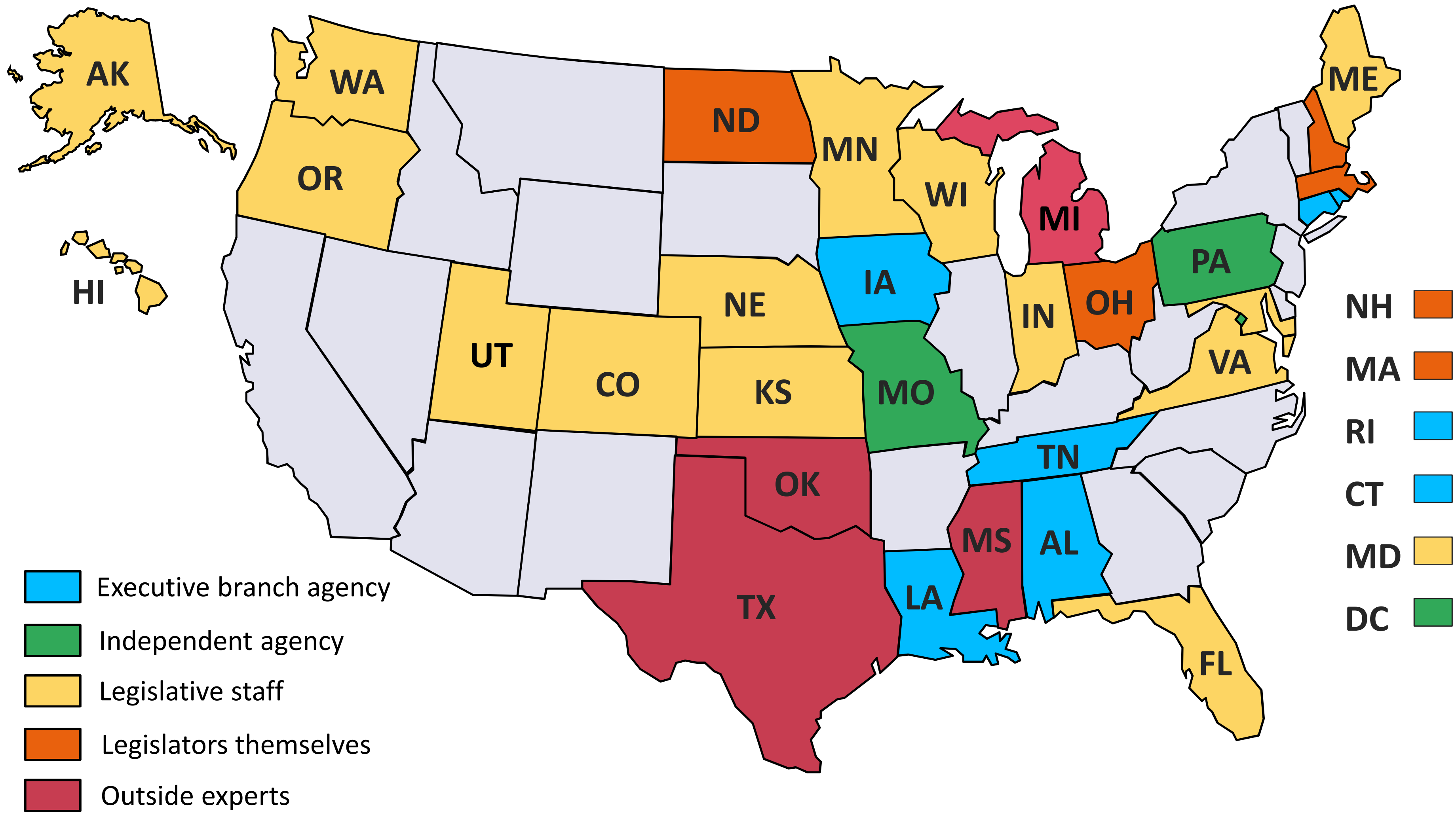
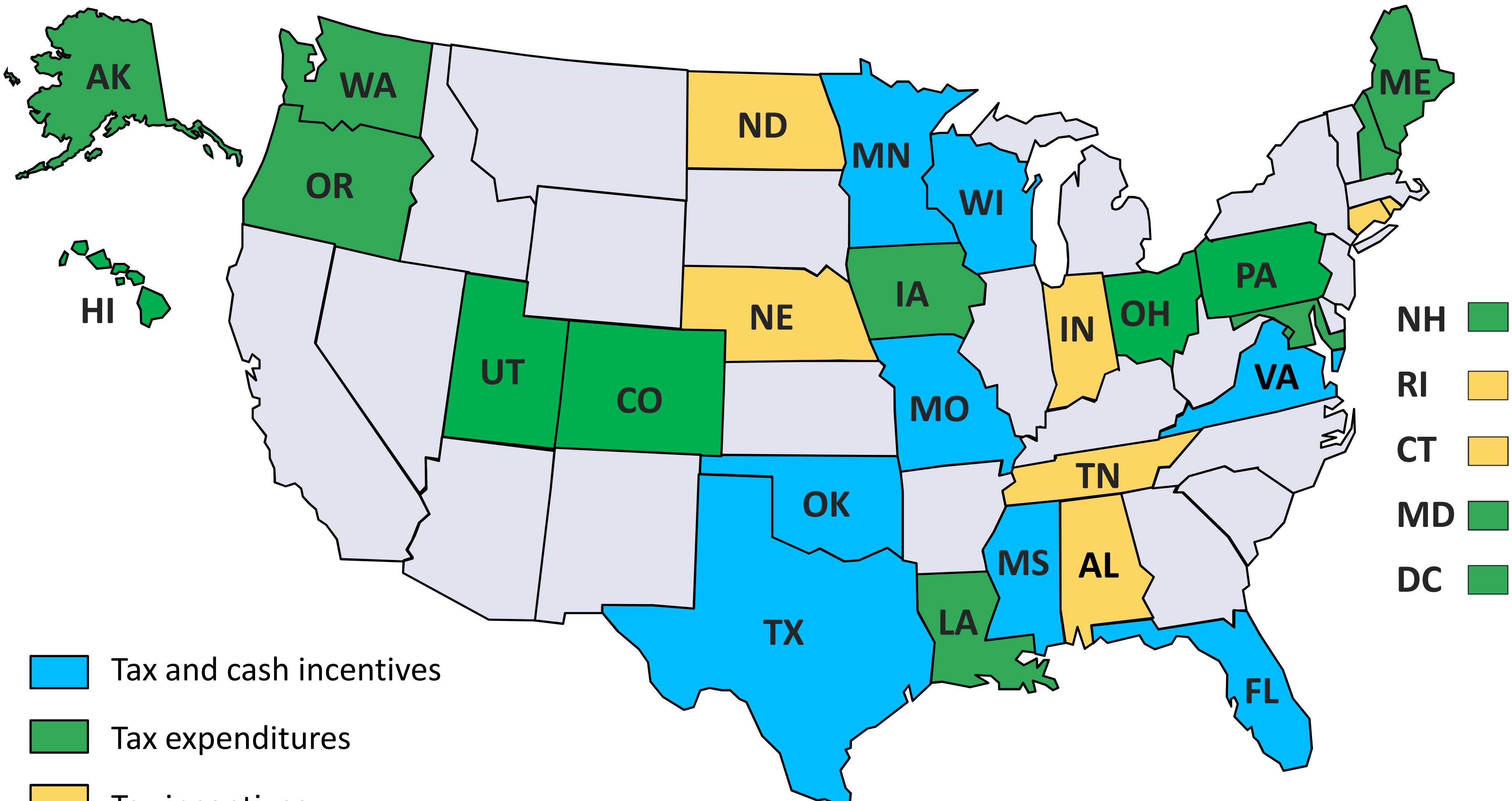


Scope of evaluations



Colorado’s Tax Expenditure Evaluation Law

Colorado's Evaluation Legislation

- 2015 HB 1205
  - Did not pass
- 2016 SB 203
  - Passed unanimously by Colorado General Assembly; signed into law on June 6, 2016

Colorado’s Evaluation Process

Who evaluates?

– Office of the State Auditor (OSA)

Evaluation scope and schedule

– All tax expenditures, including any newly enacted expenditures, must be evaluated at least once every five years

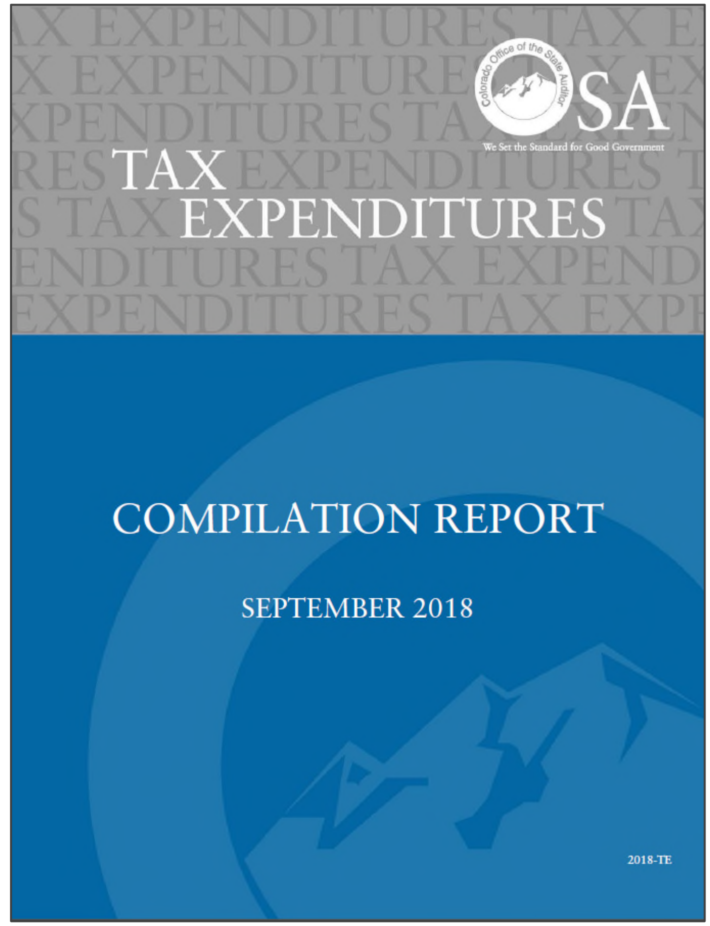
– Review schedule: begins with oldest tax expenditures first

– Any tax expenditure with a statutory repeal date must be reviewed during legislative session held in calendar year before scheduled repeal date

Reports submitted to the General Assembly, the Joint Budget Committee, and finance committees of each chamber

OSA Tax Expenditure Reports

- OSA released its first evaluation in September 2018
  – Analyzed 15 tax expenditures
- Released subsequent reports in January, April, and July 2019.
  – More than 35 expenditures included



How states use evaluation conclusions to inform policy decisions

Models for connecting evaluations to policymakers

- Numerous states: Designate a specific legislative committee to hold hearings on evaluations
- North Dakota: Legislators as evaluators
- Rhode Island: Gubernatorial recommendations
- Oklahoma: A commission that includes executive branch officials

Questions legislators may consider:

Is the program designed to achieve its intended goals?

Does the program duplicate another in the state?

Are those eligible for the program aware it exists?

Is the program's original purpose still relevant?

Are there programs offered in other states and at what level?

What are the consequences if the program is modified?

Is the program's purpose still relevant and is the cost justified?

Are program eligibility requirements appropriately defined?

Is the program administered efficiently?

Evaluation success stories

Maryland Job Creation Tax Credit

North Dakota Angel Investment Tax Credit and 21st Century Manufacturing Workforce Incentive

Maryland

Job Creation Tax Credit

– 2016 Department of Legislative Services evaluation found that certain design and administration features were limiting effectiveness

– In 2017, the General Assembly implemented five recommendations from the report

North Dakota

Angel Investment Tax Credit

- Evaluation identified a flaw in program design: credits awarded to companies located outside of the state
- Reformed program improve targeting of credits to businesses located in North Dakota

21st Century Manufacturing Workforce Incentive

- Evaluation identified a strategic gap in the state's economic development programs
- Recommended creating an incentive to assist businesses in modernizing their manufacturing processes
- New incentive created in 2019

Conclusion

- Evaluating tax incentives is becoming increasingly common among the states.
- Colorado's tax expenditure evaluation process reflects best practices:
  - Plan to regularly and rigorously evaluate all expenditures;
  - Designated an experienced evaluation office to complete the evaluations;
  - Evaluations are provided directly to the General Assembly, the Joint Budget Committee, and finance committees of each chamber.
- Evaluations have led to policy changes in other states that are designed to help programs better meet their goals and stem revenue losses.

Questions?

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