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Testimony of Chaaron Pearson
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Assembly Committee on Legislative Operations and Elections
April 18, 2019

Madam chair and members of the committee, thank you very much for the invitation to submit testimony on Assembly Bill 444. I am Chaaron Pearson, a senior manager with The Pew Charitable Trusts' economic development tax incentives project. Pew is a public charity that provides research and technical assistance to governments at the local, state, and federal levels.

My project helps states make evidence-based reforms to their economic development tax incentives. To do that, Pew's research shows that one of the most important steps is to set up a process for regular evaluation of these incentives, which is precisely what this legislation would do.

Lawmakers across the country are looking for ways to create jobs, raise wages, and help the local economy thrive in the long-term. Incentives are one of the primary tools that states use to try to achieve each of those goals. Incentives also collectively cost governments many billions of dollars.

Regular, rigorous evaluation is a proven way to ensure that tax incentives and other tax expenditures are serving the needs of your budget, economy, and taxpayers. Evaluations have provided reliable information on the economic impact of incentives, including the extent to which they have successfully influenced business behavior. These studies have also uncovered flaws in the design or administration of incentives and have recommended improvements.

But the important data that evaluations provide has not always been available. In fact, until recently lawmakers across the country have often lacked high-quality information on the results of incentives. Historically, incentives had been evaluated inconsistently or superficially if they have been studied at all. In Nevada, various agencies such as the Governor's Office of

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Economic Development and the Department of Taxation provide valuable data on incentives, but their reports are not focused on measuring the effectiveness of the programs and identifying improvements.

To date, 31 states have laws in place requiring evaluation of tax incentives. Evaluations resulting from these laws have given policymakers reliable information on the economic and fiscal impacts of incentives, including the extent to which they are successfully influencing business behavior, and their effects on state budgets. In almost every case, evaluation legislation has received strong bipartisan support. These bills have also brought together supporters and skeptics of incentives alike, who agree on the need for better information.

Assembly Bill 444 creates a new panel, the Legislative Committee on Tax Expenditures and Incentives for Economic Development, to lead the evaluation process. This is a proven approach. In 2011, Oregon created the Joint Committee on Tax Credits, a panel much like the one envisioned by this legislation. By early 2017, Oregon reported that the state was saving hundreds of millions of dollars because of the work of that committee. Those savings did not come about primarily by eliminating tax credits; instead, Oregon has worked to reform incentives, so that they cost less and provide a greater return on the state's investment.

Similarly, North Dakota tasked an interim committee with evaluating incentives starting in 2015. In the first round of evaluations, the committee found that some incentives were working well, allowing lawmakers to invest in those programs with confidence. The committee also uncovered what lawmakers saw as a potentially serious flaw in the state's Angel Fund Investment Tax Credit: Program rules which allowed angel funds to invest in out-of-state companies, many of which have no economic impact in North Dakota. In 2017, legislation was enacted to modify the tax credit, which included a provision to make the incentive more targeted to businesses actually located in the state.

Assembly Bill 444 follows the North Dakota model of having an interim committee lead evaluations. That approach makes sense in states like Nevada, where the legislature only meets biennially, allowing for thorough interim studies.

The bill also reflects national best practices by authorizing the new committee to contract with private consultants or academic institutions to formally evaluate incentives. By tasking skilled professionals such as economists or tax policy experts with studying tax incentive programs in detail, states can determine how well their incentives are performing. Several states, including

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Alabama, Oklahoma, Mississippi, and Tennessee, have had success contracting with private sector consultants or academic institutions.

For example, Oklahoma hired a private consulting firm with two former state budget directors on its staff to conduct its 2016 evaluations. This approach resulted in detailed evaluations with thoughtful discussions of each incentive that laid out clear, well-supported policy options. These evaluations are helping to inform legislative action in Oklahoma. In 2017, the Oklahoma legislature passed legislation which modified a tax credit for electricity generated by wind energy zero-emission facilities following a recommendation included in an evaluation.

Finally, most evaluation laws require all major tax incentives to be studied on a rotating multi-year cycle, with different groups of incentives reviewed each year. That way, both legislators and expert evaluators can study a subset of incentives in detail each year. This bill follows that proven approach. It establishes evaluation of economic development incentives on a six-year cycle, while also providing the new committee with the flexibility to study other tax expenditures of interest as well.

Pew's research of all 50 states leads us to believe that through this approach lawmakers will receive regular information to help you determine which incentives are working, which are not, and how to make improvements[i]. As a result, you'll be able to design policies that get better results for Nevada's state budget, businesses, and workers.

Thank you so much for your time.

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[i] For more on Pew's research, see Pew's 2017 report *How States are Improving Tax Incentives for Jobs and Growth.*