



BEST PRACTICE

Monitoring Economic Development Performance (2009) (CEDCP)

Background. Jurisdictions use economic development incentives to pursue goals and objectives set forth in an economic development policy. Incentives can be provided in a variety of forms, including cash, debt financing, credit enhancement, tax and fee waivers, credits and rebates. To accomplish objectives established in an economic development policy, agreements often include performance requirements the recipient must fulfill as a condition of the incentive extended by the jurisdiction. For this reason, it is the responsibility of the jurisdiction to evaluate the performance requirements of individual incentives as well as the cumulative impact of those incentives and agreements to ensure that the jurisdiction's economic development objectives are realized.

Recommendation. The Government Finance Officers Association (GFOA) makes the following recommendations to finance officers about ways to monitor economic development projects and program performance.

For the purposes of consistency, transparency, and accountability, a clearly defined monitoring process should be a part of every economic development policy. Objectives of the monitoring process should include periodic evaluations of individual project performance by incentive and an evaluation of the cumulative costs, benefits, and degree of goal attainment of the jurisdiction's overall program. The finance officer should be responsible for reporting the fiscal impact on the jurisdiction of each incentive used and the cumulative impact of all incentives on the overall financial condition.

1. Monitoring Project Performance.

Each project receiving an incentive should undergo periodic evaluations. The intent of the project evaluation is to examine conditions attached to the incentives in the economic development agreement to ensure that compliance standards for physical development and fiscal performance are met. Project performance can include both the timing of benchmarks and actual results compared to targets provided in the economic development agreement. This process should identify specific risks throughout the project life cycle.

Examples of project specific measures might include:

- Comparison of actual to estimated investment,
- Comparison of actual to estimated land use,
- Numbers, type of jobs created, and residency requirements,
- Average wage,
- Dollar amount of private investment,
- Net increase in property tax base,
- Living wage requirements,
- Low-to-moderate income employee qualifications,
- Actual market value and/or sales tax performance,
- Occupancy requirements,
- Disclosure of any tax delinquencies,
- Actual to estimated debt service cash flow,
- Debt coverage ratio, and
- Any conditions which might change the tax status of any related public bond offering.

Project evaluations that reveal unfavorable variances should trigger further review and possible implementation of remedies as outlined in the agreement.

2. Monitoring Jurisdictional Impacts.

A jurisdiction should measure the performance of its economic development program against the overall goals and objectives set forth in its economic development policy. Financial projections and impacts of economic development projects should be evaluated for the collective impact and incorporated into the jurisdiction's annual financial forecast and budget process. Regular reviews of this revenue stream in conjunction with debt service requirements and other obligations should be performed.

Examples of jurisdictional impact related to the use of incentives might include:

- Tax base changes,
- Economic activity changes (e.g., employment, property valuations, average wages and income levels),
- Redeveloped activities in blighted areas, and
- Housing opportunities.

In addition, other elements to consider include:

- Cumulative use of incentives on ability to fund operations and other programs,
- Risk, and if necessary quantification, of accessing general revenues or other jurisdictional credit support in the event of project underperformance, and
- Credit rating impacts.

References

- GFOA Best Practice, "The Role of Finance Officer in Economic Development," 2006.
- GFOA Best Practice, "Developing an Economic Development Incentive Policy," 2008.

Approved by the GFOA's Executive Board, February 27, 2009.