Performance Audit No. 14-03

A Performance Audit of GOED’s Corporate Incentives Program

Director: David Pulsipher, CIA
Supervisor: Chris Otto, MPA

Chief Economist: David Stringfellow, MPP
Staff: Nick Purse, MPA
Joshua Taylor
Page Left Blank Intentionally
The Office of the Utah State Auditor conducted *A Performance Audit of the Governor’s Office of Economic Development’s (GOED) Corporate Incentives Program* and presents its findings herewith. This audit was selected because of the significant amount of long-term financial commitments GOED can make through its corporate incentives program and the impact that such commitments have on future tax revenue.

Fulfillment of GOED’s vision for Utah to “lead the nation as the best performing economy and be recognized as a premier global business destination” includes offering corporate tax credits to either attract or retain companies to do business in the state. GOED has unilateral authority to attract or retain companies to the state by committing a portion of new incremental tax growth created by the incented company over a given time period.

Though advised by a board of industry professionals, GOED’s executive director has sole authority to authorize incentives with minimal oversight. GOED has committed over $600 million in corporate incentives, which will likely double by 2024 if recent trends continue.

This audit report outlines concerns that are principally the result of insufficient program guidance and oversight. GOED’s controls are inadequate to prevent preferred treatment, improper applicant approval, and questionable payments. Implementation of audit recommendations found in this report will increase the overall accountability of the corporate incentives program and provide greater controls to ensure consistent and fair treatment.

Section 1 (findings 1-2) cites concerns regarding several questionable and unverifiable payments. Section 2 (findings 3-5) demonstrates how GOED has gradually lowered the requirements for companies to receive a corporate incentive award. Section 3 (findings 6-8) illustrates that insufficient oversight and policies have created control weaknesses that threaten the accountability and integrity of the corporate incentives program and that GOED has misled stakeholders about the projected wages of jobs it incent. Section 4 (findings 9-10) provides information regarding the future commitments if trends continue in addition to the sources of tax credits. Unreliable documentation and data from GOED limited our ability to fully determine the pervasiveness of these concerns.

We recognize and appreciate the cooperation of the new GOED administration, which already began proactively implementing many of the recommendations made in this report.

Sincerely,

David S. Pulsipher, CIA, CFE
Performance Audit Director
Page Left Blank Intentionally
Executive Summary

Section 1: Insufficient Post-Performance Controls Led to Questionable Incentive Awards
The Governor’s Office of Economic Development (GOED) provided special treatment for some companies by altering post-performance assessments for companies that failed to meet GOED’s contractual threshold test for Economic Development Tax Increment Financing (EDTIF) awards. Among concerns, GOED (1) used existing company employees to inflate the average wages of the new employees created by the corporate incentive award, (2) used an incorrect benchmark to improperly issue an EDTIF award, (3) boosted the average company wage by removing low-paying jobs from the average, and (4) retroactively modified the wage criteria and issued a corporate incentive award to a company that failed to meet the wage criteria under its original contract.

Each of these adjustments generated an inequitable and inconsistently-applied assessment of company job creation and wages. Additionally, such adjustments create the false perception that GOED incents jobs that pay more than they actually pay.

Additionally, GOED could not verify actual employment and wages for two companies that received EDTIF awards. In the absence of verifiable data, GOED relied on self-reported company information to determine whether a company qualified for an EDTIF award. The company-provided data was unverifiable because the incented companies’ reported jobs were filled by third-party contractors who were not company employees and who cannot be cross-referenced with employment information provided by the state’s Department of Workforce Services.

Section 2: GOED Gradually Reduced Corporate Incentives Requirements Since 2008
Despite improving economic conditions in the state, GOED has progressively lowered company obligations required to receive an EDTIF award. Among concerns, GOED (1) gradually reduced the wage requirement from 147 percent of the average urban county wage in 2008 to 125 percent of the average urban county wage in 2013, (2) approved companies for the EDTIF program even though almost 30 percent of the projected jobs will pay below the wage requirement, and (3) included employer-paid health benefits to boost the reported employee “wages” of incented companies.

Such adjustments to the program eroded the required employee wages to the point that a company could receive a corporate incentive even though the wages of the new jobs created fall below the average wages of the county in which the new jobs will reside. Such action contradicts the legislative intent that “economic development initiatives and interests of state and local economic development officials should be aligned and united in the creation of higher paying jobs that will lift the wage levels of the communities in which those jobs will be created.”

---

1 Utah Code § 63M-1-2402(1)(c) (emphasis added).
Section 3: Inadequate Oversight Limits Corporate Incentives Accountability
GOED has the ability to commit future tax revenue without sufficient governing policy. Defining key terms and limits will improve the integrity of the corporate incentives program while providing greater consistency in the treatment of eligible companies.

The level of autonomy granted by statute led to questionable decisions, including the decision to double the length of one company’s incentive period though it was not necessary for the company to remain and expand in the state. Additionally, GOED could strengthen their approval process to ensure that companies that relocate or expand in the state would not have done so without a corporate incentive.

Finally, GOED mislead stakeholders regarding projected wages that a newly incented company will pay. GOED regularly reports inaccurately that all projected jobs that will receive EDTIF awards will pay more than the required minimum wage requirement. Failure to accurately inform stakeholders leads to a misplaced assumption that EDTIF awards add more value than they actually contribute. GOED should accurately report projected and actual wages of new jobs in their communication with stakeholders and the public.

Section 4: Corporate Incentives Impact Future Tax Revenue
GOED’s corporate incentives commitment exceeds $600 million and will likely double in the next ten years, committing future tax revenue and further complicating state revenue forecasts. Additionally, an estimated 40 percent of all corporate incentives tax credits issued to companies by GOED are individual income taxes withheld from individual employees.

Detailed reports will ensure that stakeholders understand the impact and composition of corporate incentives. In addition, such reports will enable more accurate forecasting to determine future tax revenue.
Table of Contents

Executive Summary ...........................................................................................................................................5
Table of Contents .............................................................................................................................................7
Background ......................................................................................................................................................9
Section 1: Insufficient Post-Performance Controls Led to Questionable Incentive Awards .................13
  Finding 1: GOED’s Undefined Post-Performance Review
      Process Allows Questionable Corporate Incentive Awards .................................................................15
  Finding 2: Unverifiable Jobs Data Prevent GOED
      From Validating Performance for Some Companies .............................................................................25
Section 2: GOED Gradually Reduced Corporate Incentives Requirements Since 2008 .......................27
  Finding 3: GOED Progressively Reduced Wage Requirements for Incented Companies ..................29
  Finding 4: GOED Incents Jobs that Pay Below the Wage Requirements ...............................................33
  Finding 5: Inclusion of Company-Paid Health Benefits Inflates Wages ..................................................35
Section 3: Inadequate Oversight Limits Corporate Incentives Accountability ........................................39
  Finding 6: Insufficient Statute, Rules, and Policy Threaten
      The Integrity of the Corporate Incentives Process ..............................................................................41
  Finding 7: Limited Oversight Impairs GOED’s Accountability .................................................................51
  Finding 8: GOED Reported Misleading Wages of Projected Jobs ............................................................55
Section 4: Corporate Incentives Impact Future Tax Revenue .................................................................59
  Finding 9: EDTIF Commitment Will Likely Double by 2024 ....................................................................61
  Finding 10: GOED Cannot Verify Employee Withholding Portion of EDTIF ...........................................65
Appendix A: Audit Scope, Methodology, and Limitations .......................................................................67
Appendix B: Select Corporate Incentives Meeting Transcripts .................................................................69
Agency Response ............................................................................................................................................73
Page Left Blank Intentionally
Background

Under the direction of the governor, the Governor’s Office of Economic Development (GOED) oversees various programs that exist to help GOED realize its vision for Utah to lead “the nation as the best performing economy and be recognized as a premier global business destination.” To that end, GOED has four primary stated objectives:

1. Strengthen and grow existing Utah businesses, both urban and rural.
2. Increase innovation, entrepreneurship and investment.
3. Increase national and international business.
4. Prioritize education to develop the workforce of the future.

GOED’s executive director, who “serves at the pleasure of the governor,” oversees the office operations. Unlike appointments of state agency directors, the appointment of GOED’s executive director does not require Senate confirmation. The daily functions of GOED programs are directed by three managing directors who are appointed by the executive director. These managing directors oversee the following office units:

- Tourism, Film, and Global Branding
- Business Outreach and International Trade
- Corporate Recruitment and Business Services

The executive director receives advice from the Board of Business and Economic Development (Board), which has the statutory duty to “advise the office.” The Board consists of 15 members appointed by the governor, with the consent of the Senate, to serve staggered four-year terms. Statute requires that no more than eight board members “be from one political party” and that they “be representative of all areas of the state.” The governor selects one board member to serve as chair. Board decisions are non-binding and serve only as counsel to the executive director.

The Corporate Recruitment and Incentives (CRI) program exists within the office unit of Corporate Recruitment and Business Services. This program’s mission is to “increase the number of quality jobs in Utah by helping existing companies expand and by recruiting new companies to the State.” Corporate incentives are awarded by the executive director, with the advice of the Board. Incentive awards are based on GOED’s self-selected “three pillars of success and sustainability,” which include the following:

---

3 Id. at § 63M-1-301.
4 Id. at § 63M-1-302.
1. **Post-performance.** Incentives are disbursed after the company has met the contractual performance benchmarks, such as job creation and payment of new state taxes.

2. **Single Taxpayer.** Incentive amounts are based on new state taxes generated by the project.

3. **Competition.** Incentives must make Utah competitive with other locations.

Most CRI incentives are awarded via Economic Development Tax Increment Financing (EDTIF). The EDTIF awards companies a set fixed percentage of the new state revenue they generate. New state revenue is defined as: (1) corporate income tax, (2) sales and use tax, and (3) employee individual income tax above a baseline. The composition of the EDTIF includes corporate income tax (40 percent), corporate sales and use tax (20 percent), and withholding of employee-paid individual income taxes (40 percent). All tax credits are paid out of the state income tax revenues.

GOED, with advice from the Board, can approve a tax credit of up to “30% of the new state revenues from the new commercial project over the life of a new commercial project or 20 years, whichever is less,” not to exceed “50% of the new state revenues from the new commercial project in any given year.” The *Economic Development Incentives Act* (63M-1-2400) allows companies to qualify for an EDTIF award if they meet the following criteria:

---

5 *Id.* at § 63M-1-2403(8)(a).

6 *Id.* at § 63M-1-2404(3)(c)(i).

7 *Id.* at § 63M-1-2404(2).
• “the new commercial project must be within [an economic] development zone;
• the new commercial project includes direct investment within the geographic boundaries of the development zone;
• the new commercial project brings new incremental jobs to Utah;
• the new commercial project includes significant capital investment, the creation of high paying jobs, or significant purchases from Utah vendors and providers, or any combination of these three economic factors;
• the new commercial project generates new state revenues;” and
• the business entity meets the requirements of the post-performance review and verification process, as outlined in Section 63M-1-2405.11

Because some of these terms are loosely defined in statute, GOED is responsible to create Administrative Rules to govern the evaluation of companies receiving an EDTIF award.12

In its 2013 annual report, GOED claims that EDTIF incentives created 11,933 aggregate jobs since 2006. Additionally, the annual report states that GOED has committed $95.4 million in General Fund (sales tax) cash rebates to three companies and $560.7 million in Education Fund (income tax) tax credits to 82 companies since 2006. GOED paid out $1.5 million in actual rebates and awarded $11.4 million in tax credits in fiscal year 2013.

---

8 “Significant capital investment” is statutorily defined as “an amount of at least $10,000,000 to purchase a capital asset or a fixed asset:
   (a) with the primary purpose of the investment to increase a business entity's rate at which it produces goods based on output per unit of labor;
   (b) that represents an expansion of existing Utah operations; and
   (c) that maintains or increases the business entity's existing Utah work force.” (Utah Code § 63M-1-2403(10))

9 “High paying jobs” is statutorily defined as:
   (a) “with respect to a business entity, the annual wages of employment positions in a business entity that compare favorably against the average wage of a community in which the employment positions will exist;
   (b) with respect to a county, the annual wages of employment positions in a new commercial project within the county that compare favorably against the average wage of the county in which the employment positions will exist; or
   (c) with respect to a city or town, the annual wages of employment positions in a new commercial project within the city or town that compare favorably against the average wages of the city or town in which the employment positions will exist.” (Utah Code § 63M-1-2403(4)) [Note: it is our understanding that “wages” means that which is reported in “W-2 Box 1,” commonly referred to as “W-2 wages.”]

10 “Significant purchases” is not statutorily defined. See Utah Code § 63M-1-2403.

11 Utah Code § 63M-1-2404(2)(b).

12 Id. at § 63M-1-2404(2).
Page Left Blank Intentionally
Section 1: Insufficient Post-Performance Controls Led To Questionable Incentive Awards
Page Left Blank Intentionally
GOED’s Undefined Post-Performance Review Process Allows Questionable Corporate Incentive Awards

The Governor’s Office of Economic Development (GOED) provided special treatment for some companies by altering post-performance assessments for companies that failed to meet GOED’s contractual threshold test for Economic Development Tax Increment Financing (EDTIF) awards. Among concerns cited in this finding, GOED (1) used existing company employees to inflate the average wages of the new employees created by the corporate incentive award, (2) used an incorrect benchmark to improperly issue an EDTIF award, and (3) boosted the average company wage by removing low-paying jobs from the average. Additional concerns with the post-performance review process, such as adding the value of company-paid health benefits to employee wages, are introduced in this finding and discussed in more detail in other sections of this report.

Moreover, GOED issued the tax credit to some companies that still did not meet the wage criteria even after these adjustments failed. In one case, GOED even retroactively modified the wage criteria and issued a corporate incentive award to a company that failed to meet the wage criteria under its original contract.

Each of these adjustments generated an inequitable and inconsistently-applied assessment of company job creation and wages. Additionally, such adjustments create the false perception that GOED incent jobs that pay more than they actually pay. Finally, the lack of policy for how these GOED practices are applied increases the state’s liability risk for the inequitable treatment of some participating companies and possibly other companies that did not apply for an incentive due to the published qualification criteria.

Contracts State that Incented Companies Must Create a Required Minimum Number of Jobs that Pay a Minimum Required Wage

In order to receive an EDTIF award, companies contractually agree to create a set number of jobs per year that pay employees a wage that meets or exceeds a contractually agreed-upon percentage of the average county wage where the jobs are created. During its post-performance review, GOED conducts a threshold test to assess a company’s eligibility for a corporate incentive award based on the company’s performance during the prior year. This test employs Department of Workforce Services (DWS) employment data to address two basic questions:

1. Did the company create the contractually required minimum number of jobs?
2. Did the company wage paid meet the contracted minimum?13

13 GOED considers only a company’s Utah-based employees and wages in this assessment.
To verify company performance, GOED compares DWS company data against the contract terms. In some cases GOED also considers the company-provided data. Absent additional legislative guidance, GOED has determined that new jobs created by companies in rural counties must pay at least 100 percent of the county average wage, while jobs created by companies in urban counties must pay at least 125 percent of the county average wage.

Some companies are unsuccessful in meeting the basic requirements of GOED’s basic test. Therefore, in some cases, GOED reviews detailed employee data that includes: (1) hire and termination dates, (2) hours worked, (3) wages, and (4) position descriptions. GOED then uses a combination of informal adjustments to recalculate the company data until a corporate incentive payment can be justified. We are concerned with the inconsistent and inequitable manner that these adjustments are used. We are also concerned that GOED does not have formal policies or procedures to govern these post-performance adjustments.

Due to insufficient documentation, we were not able to fully evaluate the extent to which GOED made adjustments to company performance in the post-performance process to justify EDTIF awards. Instead, this section explains how four companies failed to meet the minimum performance expectations, and how GOED then justified and issued incentive awards for those companies. Figure 1.1 provides a high-level description of the adjustments that GOED used to justify certain company EDTIF awards.

**Figure 1.1 GOED Performance Analysis**

<table>
<thead>
<tr>
<th>GOED Test</th>
<th>Description</th>
<th>Written Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs Requirement</td>
<td>Did the company create the contractually required minimum number of jobs?</td>
<td>Yes</td>
</tr>
<tr>
<td>Wage Requirement</td>
<td>Did the company salary paid meet the contracted minimum?</td>
<td>Yes</td>
</tr>
</tbody>
</table>

** GOED conducts further analysis for select companies that fail the threshold test outlined above **

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Written Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combine Jobs</td>
<td>GOED combines employees that work only part of the year in the same position into one employee.</td>
<td>No</td>
</tr>
<tr>
<td>“Lopping Off”</td>
<td>GOED removes the lowest paid jobs until the wage threshold is met.</td>
<td>No</td>
</tr>
<tr>
<td>Add Health Benefits</td>
<td>GOED adds health benefits to employee wages to increase the average company wage.</td>
<td>No</td>
</tr>
<tr>
<td>Annualize Wages</td>
<td>GOED annualizes wages for employees that worked less than the entire year in question.</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: OSA Analysis

14 GOED classifies Davis, Salt Lake, Utah, and Weber counties as “urban” for the purpose of awarding incentives.
We are concerned that the adjustments used in Figure 1.1 are not formally documented, creating an inconsistent post-performance review process. In addition, this process does not necessarily appear to adhere to the legislative intent of the corporate incentives program.

**Inclusion of Existing Company Employees In GOED’s Wage Calculation Inflates Total Company Average Wage**

GOED decided to incent companies based on the *average* wages of company jobs in Utah rather than only incenting each job that meets the minimum wage requirement. Therefore, GOED will grant an EDTIF award to a company for new jobs that pay below the minimum requirement as long as the company average wage in Utah (for some or all jobs, including existing jobs) meets or exceeds the contractual threshold. **Finding 4** demonstrates that almost 30 percent of jobs incented in 2012 and 2013 are projected to pay below the minimum wage requirement.

In practice, it appears that GOED also includes some or all existing employees in the average wage calculation, rather than an average of only *new* employees that the company agreed to employ in exchange for receiving an EDTIF award. However, this practice appears to be contrary to the Economic Development Incentives Act, which does not expressly permit the consideration of wages of existing or baseline employees in determining EDTIF eligibility and payouts. Statute requires companies to create *new* incremental jobs for a *new* commercial project that generates *new* state revenue to qualify for an award.\(^{15}\) Wages of existing employees can inflate the company average wage, resulting in companies receiving corporate incentive awards even though they paid new employees less than the wage requirements established in the contracts.

As a result, a company could conceivably receive an EDTIF disbursement by counting toward its job total both (1) part-time jobs and (2) jobs that pay below the minimum required wage in contract (as measured on a job-by-job basis). In addition, a company could conceivably receive an EDTIF disbursement with an average company wage that is inflated by the wages of employees that have been working for years prior to the EDTIF award. GOED should only consider new employee wages to determine if a company qualifies for an EDTIF award.

**GOED Issued an EDTIF Award Despite Company A’s Failure to Meet the Minimum Wage Requirement**

In 2011, after Company A failed to meet the initial wage requirement, GOED reviewed company-provided employee information. During that review, GOED combined 37 employees (including part-timers) into 18 employee positions so that the company would meet the requirements. Combining these positions increased the company’s average wage to $32,453, and GOED issued the company a tax credit for over $100,000. However, upon closer review we found that the

\(^{15}\) Utah Code § 63M-1-2404(2)(b).
We are concerned that GOED issued an EDTIF award to this company despite the company’s failure to meet the minimum contractual wage requirement. The contract with this company states,

“Economic Development Tax Increment Financing can only be issued for Economic Development Tax Increment Financing Periods in which the Project’s annual total average salary for employees for the Project is equal to or greater than 125% of the . . . County Median wage, which may change yearly.”

After informing GOED that the incorrect wage criteria was used for the post-performance analysis, GOED staff conducted a new analysis to show how this company still might have qualified for an EDTIF award. In its new analysis, GOED discarded much of its original audit documentation and calculations and added an additional step to its analysis to annualize employee wages, although annualizing wages was neither documented nor applied in the original review.

**GOED Removes Companies’ Low-Paying Jobs to Boost the Company Average Wage**

GOED commonly removes low-paying jobs from the average company wage calculation in order to boost the company’s average wages. For example, GOED issued an EDTIF award to Company B even though the company failed to meet the initial average wage criteria by almost $18,000. GOED rationalized issuing an EDTIF award by adjusting the company’s minimum obligations by (1) annualizing employee wages for individuals that worked less than the full year, (2) adding health benefits to the employee wages and comparing this total against the average county wage, and (3) removing over 40 low-paying jobs (68 percent of the total number of Company B’s new jobs) from the average company wage calculation until the average wage of the remaining employees exceeded the minimum threshold. The practice of removing low-paying jobs from the average wage calculation—known within GOED as “lopping off”—enables select companies to report higher wages for incented jobs. Figure 1.3 shows the distribution in low-paying jobs that were removed.

---

16 GOED used a median county wage for the incorrect year.
As shown in Figure 1.3, the bottom two tiers of jobs were removed when determining whether the company met the minimum salary threshold. Consequently, after removing the low-paying jobs from the total, the company no longer had enough eligible new jobs to qualify for the EDTIF award, thus failing the first prong of the threshold qualification test, yet the company still received an EDTIF disbursement. In this instance the company either met the wage requirement or the jobs requirement, but not both, as demonstrated in Figure 1.4.

We are concerned that GOED selectively chooses which jobs to count toward helping companies meet one set of requirements while potentially falling short of the other. We are also concerned that this practice is applied inconsistently and, absent consistently applied policies and procedures governing the practice, could be perceived as giving preferred treatment to some companies.
Company C Required a Combination of Multiple Questionable Adjustments to “Successfully Meet” Performance Requirements

GOED made multiple adjustments to justify $750,000 in corporate incentive awards to Company C over a three-year time period. Though GOED did not necessarily need to make all of these adjustments in order for this company to qualify for the incentive award, we are concerned that such adjustments are done inconsistently and without formal governance.

Figure 1.5 shows that the company average salary alone was insufficient for all three years when conducting the test against the county requirement.

<table>
<thead>
<tr>
<th>Year</th>
<th>Avg. Company Wage Reported*</th>
<th>Wage Requirement</th>
<th>Difference Between Actual and Required Wages</th>
<th>Did the Company Meet the Wage Requirement?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$40,729</td>
<td>$52,020</td>
<td>($11,291)</td>
<td>No</td>
</tr>
<tr>
<td>2</td>
<td>$47,053</td>
<td>$53,264</td>
<td>($6,211)</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>$44,158</td>
<td>$54,321</td>
<td>($10,163)</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: OSA analysis of DWS data and company C contract

After discovering that the company did not satisfy the wage criteria, GOED reviewed other benefits paid. GOED then used a series of adjustments, similar to those outlined in Figure 1.6, to justify a corporate incentive for the company.
Figure 1.6  GOED Included Health Benefits, Removed Low-Paying Jobs from the Average, and Combined Eligible Positions to Rationalize a Corporate Incentive for Company C

<table>
<thead>
<tr>
<th>GOED Test</th>
<th>Test Description</th>
<th>Would the Company Qualify for an Incentive?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jobs Requirement</td>
<td>Did the company create the contractually-required minimum number of jobs?</td>
<td>Yes</td>
</tr>
<tr>
<td>Wage Requirement (Figure 1.5)</td>
<td>Did the company salary paid meet the contracted minimum?</td>
<td>No</td>
</tr>
<tr>
<td>** GOED conducts further adjustments for select companies that fail the wage threshold test **</td>
<td></td>
<td></td>
</tr>
<tr>
<td>** (the adjustments applied below pertain to the wage criteria)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Full-time employees</td>
<td>Count employees that worked at least 32 hours per week (wages only)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Count employees that worked at least 32 hours per week (wages plus health benefits)</td>
<td>No</td>
</tr>
<tr>
<td>Full-time and worked at least 50% of year</td>
<td>Count full-time employees that worked at least 50% of the year (wages only)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Count full-time employees that worked at least 50% of the year (wages plus health benefits)</td>
<td>Yes</td>
</tr>
<tr>
<td>Full-time, combined eligible positions that worked 50% of year</td>
<td>Combine eligible (same positions for separations rehired within 90 days) full-time employees that when combined work at least 50% of the year (wages only)</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Combine eligible (same positions for separations rehired within 90 days) full-time employees that when combined work at least 50% of the year (wages plus health benefits)</td>
<td>Yes</td>
</tr>
<tr>
<td>Full-time, worked 50% of year, combine eligible positions, and “lop off” low-wage employees</td>
<td>Count full-time employees that worked at least 50% of the year, but combine same positions for separations rehired within 90 days and eliminate low-wage employees (wages only)</td>
<td>Yes*</td>
</tr>
<tr>
<td></td>
<td>Count full-time employees that worked at least 50% of the year, but combine same positions for separations rehired within 90 days and eliminate low-wage employees (wages plus health benefits)</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: OSA analysis of Company C employment data
*Elimination of low-wage employees resulted in failure to meet the jobs bar

Figure 1.6 shows that this company needed significant adjustments by GOED to “meet” the wage requirement in each year. Our concerns with GOED’s performance assessment of this company include:
• GOED added health benefits to the company’s average wages, which it then measured against the average county wages that did not include health benefits (see Finding 5 for additional information on this concern).

• GOED removed the lowest-paying jobs from the average until the company’s average wage plus health benefits exceeded 125 percent of the county average wage.

• The average company wage calculation included existing baseline employees, nearly 100 of whom made over $100,000 during these three years. None of these employees were hired as a result of the EDTIF incentive, yet GOED’s inclusion of some of these employees’ wages increased the average salary and resulted in an EDTIF award.

Company C Received an EDTIF Award Though the Majority of New Jobs Pay Below the County Wage Requirement. In addition to needing considerable adjustments from GOED to justify the minimum performance requirements, this company paid new incremental employees well below the average county wage. Such a practice actually lowers the average county wages, which contradicts the purpose of a corporate incentives award and contradicts the statutory objective of the program.17 Figure 1.7 shows what Company C paid new employees hired each year of the EDTIF payout.

Figure 1.7  Incented Jobs Pay Below the Wage Requirement

<table>
<thead>
<tr>
<th>Year</th>
<th>Wage Requirement</th>
<th>New Employee Average Wage</th>
<th>Difference Between New Wage and Required Wages</th>
<th>Percent of New Jobs that Pay Above Wage Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$52,020</td>
<td>$35,785</td>
<td>$16,235</td>
<td>9%</td>
</tr>
<tr>
<td>2</td>
<td>$53,264</td>
<td>$39,244</td>
<td>$14,020</td>
<td>20%</td>
</tr>
<tr>
<td>3</td>
<td>$54,321</td>
<td>$39,617</td>
<td>$14,704</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Company C data

We are concerned that most of the new jobs this company was incented to create pay below the contractual requirement for the EDTIF award. Incenting the creation of jobs that pay below the county average wage contradicts GOED’s policy of “creat[ing] new, high-paying jobs in Utah,” which are defined in statute as jobs that pay annual wages that “compare favorably against the average wage of a community in which the employment positions will exist.”18 GOED should only incent the creation of new high-paying jobs that fulfill this statutory requirement.

17 The Legislature prefaced the EDTIF statute with several findings, including that “economic development initiatives and interests of state and local economic development officials should be aligned and united in the creation of higher paying jobs that will lift the wage levels of the communities in which those jobs will be created.” Utah Code § 63M-1-2402(1)(c).

18 We believe the term “compare favorably” is consistent with the Legislature’s determination that economic development incentives should create “higher paying jobs that will lift the wage levels of the communities in which those jobs are created.” Utah Code § 63M-1-2402(1)(c) (emphasis added). Therefore, a job that compares favorably is one whose wages are in excess of the average county wage.
Strengthening internal controls by creating formal policies and procedures will improve the corporate incentives approval process. Due to the significant impact that corporate incentives have on future tax collections, the Legislature should take an active role in developing such policy. Further discussion on GOED’s insufficient policies can be found in Finding 6 of this report.

**GOED Retroactively Lowered the Requirement and Issued a Tax Credit for A Company That Fell Short of its Initial Contractual Wage Requirement**

GOED lowered the contractual wage requirement for and issued an EDTIF award to Company D after the company failed to meet the initial contractual wage requirement. This company contracted to create jobs that were greater than or equal to 175 percent of the county average wage, but only paid employees 168 percent of the county average wage in the contract’s first year.

According to recordings\(^{19}\) from GOED’s corporate incentives subcommittee meetings, Company D did not meet its wage requirement because it found that it could pay its employees less in Utah than it does in other locations. Acting on the advice of this subcommittee, GOED decided to retroactively lower the requirement for this company to 125 percent of the average county wage. The amended contract will pay this company 25 percent of new state revenue for 15 years, which could equate up to $5.2 million.

GOED retroactively lowered the contractual requirements in order to maintain a positive relationship with this company. Although this company agreed to add an additional 50 projected jobs and the new contract decreased the overall incentive cap, we are concerned that GOED disregarded its contractual obligations and retroactively paid a company that did not qualify for a post-performance incentive award. Furthermore, such arrangements do not have any legislative oversight or stakeholder transparency.

We are also concerned that such an arrangement was made without sufficient guidance to ensure consistent treatment among companies. Due to lack of oversight, governing policy, or precedent, it appears that GOED was able to provide special treatment for this company that it has not provided for any other company. Formalized policies would reduce the inherent risks that accompany this type of special treatment.

\(^{19}\) See Appendix B, transcript 1.
Recommendations

1. We recommend that the Governor’s Office of Economic Development formally create a written process for how all future post-performance corporate incentive reviews should be conducted.

2. We recommend that the Governor’s Office of Economic Development clearly document the criteria used to assess company performance and how the company met those requirements to justify an award payout.

3. We recommend that the Governor’s Office of Economic Development consider only new employee wages when determining if a company qualifies for a corporate incentive award.

4. We recommend that the Governor’s Office of Economic Development issue corporate incentive awards to only companies that fulfill their contractual obligations.

5. We recommend that the Governor’s Office of Economic Development incent only jobs whose wages “compare favorably against the average wage of a community in which the employment positions will exist.”

6. We recommend that the Governor’s Office of Economic Development refrain from retroactively lowering company wage or jobs requirements.
Finding 2
Unverifiable Jobs Data Prevent GOED From Validating Performance for Some Companies

The Governor’s Office of Economic Development (GOED) could not verify actual employment and wages for two companies that received Economic Development Tax Increment Financing (EDTIF) awards. In the absence of verifiable data, GOED relied on self-reported company information to determine whether a company qualified for an EDTIF award. The company-provided data was unverifiable because the incented companies’ reported jobs were filled by third-party contractors who were not company employees and who cannot be cross-referenced with employment information provided by the state’s Department of Workforce Services. Figure 2.1 shows the unverified jobs at the two companies and the tax credit that GOED issued.

Figure 2.1  GOED Issued Almost $2.8 Million in EDTIF Awards Based on Unverifiable Data Provided by Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Jobs Reported</th>
<th>Jobs Verified</th>
<th>Tax Credit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company E</td>
<td>1</td>
<td>56</td>
<td>2</td>
<td>$472,000</td>
</tr>
<tr>
<td>Company E</td>
<td>2</td>
<td>63</td>
<td>2</td>
<td>$1,178,000</td>
</tr>
<tr>
<td>Company E</td>
<td>3</td>
<td>75</td>
<td>2</td>
<td>$882,000</td>
</tr>
<tr>
<td>Company F</td>
<td>1</td>
<td>28</td>
<td>14</td>
<td>$225,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>$2,759,000</strong></td>
</tr>
</tbody>
</table>

Source: GOED and company data

The Economic Development Incentives Act (Act) statute does not allow for contractor income taxes to count toward an incentive award. Rather, the Act allows GOED to count “incremental new state tax revenues paid as individual income taxes . . . by employees of a new or expanded . . . service within a new commercial project” toward new state revenue generated.\(^{20}\) In addition, the statute states that the payment of individual income taxes is “evidenced by payroll records that indicate the amount of employee income taxes withheld and transmitted to the State Tax Commission” by the new service within the “new commercial project.”\(^{21}\) Thus, only the individual income taxes withheld evidenced by the payroll records of the incented company—and not those of a contractor—may count toward new state revenue. These employees must also work within and be subject to wage withholding by the incented company.

---

\(^{20}\) Utah Code § 63M-1-2403(8)(a)(iii) (emphasis added).

\(^{21}\) Id.
Though Company E’s contract allows for contractors to fulfill the company’s jobs requirement, we are concerned that the contract would allow for the creation of unverifiable jobs. Company E’s contract states:

"Job" means a single, individual, full time position at the Project, where the individual is a Utah Resident and employed at least 32 hours per week....Such individual may be employed directly by Company or by a contracted service provider for the Project provided the Job falls in line with the Project. Those individuals who are Company employees shall be entitled to basic health insurance, retirement and other benefits, if any, commensurate with other Company employees in similar positions.

The contract also allowed the company to create only one verifiable new job in 2009 and then allowed an EDTIF payment for each consecutive year based on the unverified contractors. Company F also used contractors, but its contract does not have the same language that allows the inclusion.

Including contract jobs in order to meet the new jobs requirement impairs GOED’s ability to verify a key company performance standard. Company E, which was issued more than $2.5 million in EDTIF awards over a three-year period, actually created only two new verifiable jobs within the incented company. However, the company was allowed to report up to 75 contractors to count towards the jobs needed to qualify for the incentive. GOED could not verify that the contractors were paid a wage that met the minimum salary requirement, or that the company actually met the minimum job creation threshold.

Because of the unverifiable nature of including third-party contractors as part of a company’s new jobs created to justify an EDTIF award, we recommend that the Legislature determine if such a practice should be allowable.

Recommendations

1. We recommend that the Legislature specify whether an incented company should be allowed to include contractors as part of the company’s commitment to creating new jobs.

2. We recommend that the Governor’s Office of Economic Development create a reliable verification process for all newly created jobs used to receive an incentive award.

22 Although not verifiable, the tax credit payout for this company was primarily the result of corporate sales tax paid to third parties, not individual income taxes paid.
Section 2:
GOED Gradually Reduced Corporate Incentives Requirements Since 2008
Page Left Blank Intentionally
Finding 3  GOED Progressively Reduced Wage Requirements for Incented Companies

Based on its contracts with incented companies, the Governor’s Office of Economic Development (GOED) has gradually reduced the wage requirement from 147 percent of the average urban county wage in 2008 to 125 percent of the average urban county wage in 2013. By lowering the wage requirement, GOED decreased the wage a company must pay its new employees in order for the company to qualify for an incentive. Figure 3.1 shows how the wage requirement has changed over time.

Figure 3.1  Weighted Average Urban Wage Requirement

![Graph showing the reduction in wage requirement from 147.18% in 2008 to 125.00% in 2013.]

Source: OSA analysis of GOED EDTIF contracts

As illustrated in the figure above, GOED has lowered the wage requirement over the last six years. For example, in 2012, incented companies in urban counties were, on average, required to pay 125 percent of the average county wage, or $53,094. However, if the wage criterion used in 2008 were used for companies in urban counties whose incentives began in 2012, the average wage threshold would have been $57,135.

While GOED’s wage requirement for an EDTIF award followed a downward trend from 2008 to 2013, the average county wage in urban areas has steadily increased. Figure 3.2 shows the trend.

---

23 The average wage criteria for a given year is calculated as the average of all contractually assigned percentages of the average county wage for the particular county in which the company operates. For example, in 2012, each company approved for an incentive in an urban county contracted to pay its employees at least 125% of the average county wage, yielding an average percentage of 125% for the year 2012. The median county wage percentages for three 2008 companies were adjusted to reflect the equivalent average county wage for their respective counties.
in the urban average county wage compared to the wage threshold that GOED has required of new companies.

Figure 3.2  GOED’s Effective Wage Requirement\(^24\) for Incentive Awards Decreased While Urban County Wages\(^25\) Increased

Figure 3.2 shows that as the average urban county wage continues to increase, GOED has reduced the wage requirement needed to qualify for a corporate incentive award. By 2013, the inclusion of health benefits actually lowers the effective rate to below the average county wage. Statute defines a “high paying” job as one that “compare[s] favorably against the average wage of a community.”\(^26\) We are concerned, however, that GOED’s interpretation of this definition has gradually eroded over the last six years to the point where the effective qualifying wage is actually less than the average county salary in some counties. Concerns regarding the inclusion of health benefits in company wages are discussed in more detail in Finding 5.

Furthermore, as demonstrated in Finding 4, almost 30 percent of incented jobs approved in 2012 and 2013 are projected to pay less than the county wage requirement. GOED justifies incenting

\(^{24}\) The effective wage requirement accounts for company estimates of company-paid health benefits.

\(^{25}\) The urban county wage used in this figure is weighted based on the incentives awarded by county.

\(^{26}\) Utah Code § 63M-1-2403(4)(a).
recommendations

1. We recommend that the Governor’s Office of Economic Development perform an economic analysis consisting of a cost-benefit analysis to determine the appropriate wages at which urban and rural companies should be incented.27

2. We recommend that the Legislature clearly define the minimum threshold newly created high paying jobs must meet to receive a corporate incentive award.

27 GOED has currently set the threshold at 125 percent of urban average county wage or 100 percent of rural average county wage.
Page Left Blank Intentionally
Finding 4  GOED Incents Jobs that Pay Below the Wage Requirements

Nearly one-third of all projected jobs that the Governor’s Office of Economic Development (GOED) approved for Economic Development Tax Increment Financing (EDTIF) awards in 2012 and 2013 are expected to pay less than the contractual wage requirement. These projections are provided by the EDTIF candidate companies prior to receiving incentives and are used by GOED to determine whether the company qualifies for an award. Figure 4.1 highlights the projected jobs for the newly incented companies.

Figure 4.1  Almost 30 Percent of Jobs Approved in 2012-2013 Are Projected to Pay Less than the County Wage Requirement

Source: OSA analysis of GOED data

Though statute requires that the wage of “high paying jobs” must “compare favorably against the average wage of a community,” almost one out of every three jobs incented in 2012 and 2013 is projected to pay less than the respective wage requirement.

28 The average wage requirement GOED uses is 125 percent of the average county wage for EDTIF awards in urban counties and 100 percent of the average county wage for EDTIF awards in rural counties.

29 Utah Code § 63M-1-2403(4)(a).
We are concerned that GOED incents jobs that pay below the wage requirement and, therefore, do not “compare favorably to the average county wage of a community.” Statute states that “economic development initiatives and interests of state and local economic development officials should be aligned and united in the creation of higher paying jobs that will lift the wage levels of the communities in which those jobs are created.” 30 Nearly 30 percent of the jobs incented in 2012 and 2013 are projected to not meet that standard. This occurs because GOED (1) includes existing company employees when conducting the wage threshold test, (2) boosts the average company wage by removing low-paying jobs from the calculation, and (3) adds the value of company-paid health benefits to employee wages which is measured against the average county wage that does not include health benefits.

Recommendations

1. We recommend that the Governor’s Office of Economic Development only incent jobs that pay a wage exceeding the community average wage, thus lifting the wage levels of the state’s communities.

2. We recommend that the Governor’s Office of Economic Development issue an annual report to the Legislature that discloses the wages paid for newly created jobs receiving corporate incentives.

30 Id. at § 63M-1-2402(1)(c) (emphasis added).
Finding 5  
Inclusion of Company-Paid Health Benefits Inflates Wages

The addition of company-paid health benefits in employee wage projections causes the Governor’s Office of Economic Development (GOED) to incent lower paying jobs than it has previously incented. Beginning as early as 2010, GOED began adding employer-paid health benefits with employee wages to inflate a company’s “wages” reported when the non-adjusted wages alone were insufficient to reach the county average wage requirement. However, health benefits are not included in the calculation of county average wages to which the projected company wages are compared to determine eligibility for an Economic Development Tax Increment Financing (EDTIF) award. Figure 5.1 shows the effect that including health benefits has on the projected wages of two companies.

Figure 5.1  
Many Companies Approved for an EDTIF Award Would Not Meet the Wage Criteria Without Including Non-Wage Compensation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Company G</td>
<td>$56,000</td>
<td>$48,000</td>
<td>85.7%</td>
<td>$60,000</td>
<td>107.1%</td>
</tr>
<tr>
<td>Company H</td>
<td>$56,000</td>
<td>$44,000</td>
<td>78.6%</td>
<td>$56,000</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Analysis of fiscal impact questionnaires (FIQs) projections. Each company project was approved for an urban county and, thus, was required to create jobs that pay at least 125% of the county average wage.

The inclusion of company-paid benefits in the comparison mismatch causes GOED to incent companies to hire employees who receive lower wages than the applicable county wage requirements, as shown in Figure 5.1. Therefore, GOED is incenting companies to create jobs that are not necessarily “higher paying jobs that will lift the wage levels of the communities in which those jobs will be created.”

We are concerned that GOED combines benefits with wages, which are then compared to the average county wages that do not include such benefits. This practice lowers the salary that a company must pay in order to receive an EDTIF award and misleads stakeholders into believing that incented jobs pay more than they actually pay.

Furthermore, the use of such a practice without formal policy results in an inconsistent selection of companies that GOED allows to use health benefits to count towards meeting the wage requirement. Based on incentives subcommittee meeting discussions, this practice is intended to be used at GOED’s discretion, which may lead to preferential treatment for some companies seeking EDTIF awards. Additionally, some companies that were unaware of the potential

31 Utah Code § 63M-1-2402(1)(c).
inclusion of health benefits might have applied for and been awarded incentives had they known of this allowance from GOED. Figure 5.2 shows trends in the proportion of companies that were allowed to include health benefits in their fiscal impact questionnaire (FIQ) to be approved for an incentive since 2011.

**Figure 5.2** Companies Approved for Incentives that Included Health Benefits to Meet Wage Criteria for at Least One Projected Year Over the Life of the Incentive

![Bar chart showing trends in the proportion of companies approved for incentives that included health benefits over time.](chart.png)

Source: OSA analysis of company FIQ’s

Figure 5.2 shows that about one-quarter of the companies GOED approved for the corporate incentives program in 2013 included health benefits in projected wages in order to “meet” the county wage requirement. To date, most of these company awards have not been paid, but GOED may have contractually obligated the state to this reduced standard for up to 20 years.

Additionally, this practice presents future risk that GOED will continue to incentivize companies that are paying increasingly lower wages, while including health benefits to justify and award corporate tax incentives. As mentioned in **Finding 1**, the wage threshold measures the employee wages against the average county wage that does not include health benefits. Therefore, the practice of adding employer-paid health benefits to employee wages provides for an inequitable comparison. We believe this practice is contrary to the legislative intent of committing future tax revenue only to companies that will increase the community’s wage levels.
Recommendations

1. We recommend the Governor’s Office of Economic Development include only employee wages, and not employer-paid health benefits, when determining whether the company’s new incremental jobs meet the average county wage criteria.

2. We recommend that whenever the Governor’s Office of Economic Development chooses to use additional criteria in assessing company performance, it use equivalent metrics to compare the company’s compensation with average county compensation.
Page Left Blank Intentionally
Section 3:
Inadequate Oversight Limits Corporate Incentives Accountability
Page Left Blank Intentionally
Finding 6
Insufficient Statute, Rules, and Policy Threaten the Integrity of the Corporate Incentives Process

The Governor’s Office of Economic Development (GOED) has commitments of more than $600 million of corporate incentive awards but has few formal guidelines for how these awards are issued and how performance is measured. Additionally, GOED’s interpretation of the statute has led to the issuance of contracts that do not comply with statute.

Though the development of Administrative Rules and policies and procedures are required by statute, GOED does not define key terms and procedures that determine eligibility for a corporate incentive award. Due to the extent of the long-term commitments by GOED, the Legislature should define key terms and establish clear guidelines for companies seeking a corporate incentive award.

Statutory Guidance for the Issuance of Corporate Incentive Awards Is Vague

The Economic Development Incentives Act (Act) requires that, in accordance with the Utah Administrative Rulemaking Act, GOED “make rules establishing the conditions that a business entity . . . shall meet to qualify for a tax credit.” At a minimum, GOED must ensure that these rules include the following requirements:

- “the new commercial project must be within [an economic] development zone;”
- the new commercial project includes direct investment within the geographic boundaries of the development zone;
- the new commercial project brings new incremental jobs to Utah;
- the new commercial project includes significant capital investment, the creation of high paying jobs, or significant purchases from Utah vendors and providers, or any combination of these three economic factors;
- the new commercial project generates new state revenues;” and
- the business entity meets the requirements of the post-performance review and verification process, as outlined in Section 63M-1-2405.

32 Utah Code § 63M-1-2404(2)(a).
33 GOED, with advice from the board, “may create an economic development zone in the state that satisfies all of the following requirements: (a) the area is zoned commercial, industrial, manufacturing, business park, research park, or other appropriate use in a community-approved master plan; (b) the request to create a development zone has been forwarded to the office after first being approved by an appropriate local government entity; and (c) local incentives have been committed or will be committed to be provided within the area.” Id. at § 63M-1-2404(1).
34 Utah Code § 63M-1-2404(2)(b).
GOED has enacted rules that effectively mirror these minimum statutory requirements, but these rules make no mention of other policies and practices that GOED currently uses to administer the Economic Development Tax Increment Financing (EDTIF) award approval and issuance process.\(^{35}\) Rather, any additional qualification criteria and payout considerations are found on the GOED website, represented in confidential incentives meeting deliberations, or reflected in post-performance evaluation and adjustment practices.

Although the Act does not mention any other process by which GOED is to establish tax credit qualification conditions, it does address the role of the GOED Board of Business and Economic Development (Board) in this process. For example, consistent with its role as an advisory board, the GOED Board is required to “recommend policies, priorities, and objectives to [GOED] regarding the assistance, retention, or recruitment of business, industries, and commerce in the state.”\(^{36}\) In addition, GOED “shall obtain the advice of the [GOED] board prior to an imposition of or change to a policy, priority, or objective under which [GOED] operates.”\(^{37}\)

Thus, for policy considerations outside of the minimum statutory guidelines formally enacted in rule, GOED chose instead to follow a maximally-flexible approach allowable within the broad parameters of the statute. The decision to emphasize flexibility rather than accountability was discussed in a corporate incentives subcommittee meeting in 2010,\(^{38}\) when the GOED executive director specified a preference for informal guidelines rather than formal rules and policies.

The decision to not create formal policy gives GOED the continued flexibility to establish questionable and inconsistent methods for approving a corporate incentive award cited in Finding 1 of this report. Such methods consist of (1) including existing company employees to inflate the average wages of the EDTIF award, (2) using incorrect benchmarks to improperly issue an EDTIF award, (3) boosting the average company wage by removing low-paying jobs from the average, and (4) retroactively reducing wage requirements for and issuing a tax credit to an unqualified company.

While the statute is broad, it also requires GOED to formalize administrative rules and policies. We are concerned that GOED chose flexibility over formal rules and policies that would have provided more program accountability and consistency. Such action circumnavigated the rule-making process which would have included more stakeholder participation and input.

The flexibility created from broad statute, rules, and policies caused GOED to make a number of inconsistent decisions regarding which companies to incent, incentive duration, and incentive amount, as demonstrated in previous findings in this report. We believe that, considering the amount of future tax revenue GOED can commit, clearly defined operational boundaries and consistently implemented policies are needed for the following components of GOED’s front-end corporate incentive approval process:

\(^{35}\) See Utah Administrative Code r357-3-3.
\(^{36}\) Utah Code § 63M-1-303(g).
\(^{37}\) Id. at § 63M-1-304(2)(a).
\(^{38}\) See Appendix B, transcript 2.
1. High paying jobs
2. New incremental job growth
3. Competition with other states for company relocation
4. Appropriate length and amount of award rates
5. Urban versus rural designation
6. Significant purchases from Utah vendors

GOED Contracts Do Not Always Conform to Statute

GOED may enter into an “agreement” with a company to authorize a tax credit if the company meets statutory standards. The Act requires GOED to ensure that this agreement “details the requirements that the business entity . . . shall meet to qualify for a tax credit.” In addition, to qualify for a tax credit, a company must provide “documentation that the business entity has satisfied the performance benchmarks outlined in the agreement.” Assuming the contracts were made with the intent that the companies would create “high paying jobs,” GOED approved contracts that contradict statute in the following instances:

- Incenting jobs that pay below the average county wage. The Act defines “high paying jobs” as “the annual wages of employment positions in a business entity that compare favorably against the average wage of a community in which the employment positions will exist.” The intent of this language suggests that incented jobs will pay more than the county average wage. By measuring the average company wages against the county average wage, GOED incented jobs that pay below the county average wage. This problem is exacerbated by the inclusion of existing employees in the company average that is intended to demonstrate wages that were created as part of a corporate incentive.

Additionally, as mentioned in Finding 5, GOED includes health benefits in employee wages, creating an unequal comparison against the average county wage that does not include health benefits. This unequal comparison prevents GOED from conducting an accurate analysis of company wages relative to the county requirement.

- Jobs shifting from one jurisdiction to another. The Act requires that new projects “bring new incremental jobs to Utah.” New incremental jobs are defined as positions that are “not shifted from one jurisdiction in the state to another jurisdiction in the state.” However, some contracts directly conflict with this prohibition and count company employees that transfer from within the state.

---

39 Utah Code § 63M-1-2404(3).
40 Id. at § 63M-1-2404(4)(a).
41 Id. at § 63M-1-2405(2)(f) (emphasis added).
42 Id. at § 63M-1-2403(4)(a).
43 Utah Code § 63M-1-2404(2)(a)(iii).
44 Id. at § 63M-1-2403(7)(a).
Prohibition of auditor access to contracts. Standard contractual language impaired our access to contracts, though such access is clearly granted in statute. Though we eventually were granted access to the contracts, this prohibition contradicts the Office of the State Auditor’s statutory authority and delayed the audit.

GOED should ensure that contracts comply with statute and accomplish the intent of the corporate incentives program.

The Definition of “High Paying” Job Is Applied Subjectively

The corporate incentives program was enacted to “address the loss of prospective high paying jobs,” but GOED has gradually reduced the minimum wage requirements for new companies from 147 percent of average county wage in 2008 to 125 percent today, as mentioned in Finding 3.

In passing the Act, the Legislature determined that “economic development initiatives and interests of the state and local economic development officials should be aligned and united in the creation of high paying jobs that will lift the wage levels of the communities in which those jobs will be created.” However, other than stating that high paying jobs “compare favorably against the average wage of a community” in which the jobs reside, statute does not outline any other quantitative criteria for what a high paying job—or even merely what a new incremental job—must pay to qualify for an EDTIF award.

In deference to the Industrial Assistance Fund requirements in the general GOED statute, GOED eventually adopted 125 percent of average county wage as its minimum benchmark for urban counties. As mentioned in Finding 5, GOED also permits some companies to include health benefits in that wage calculation, preventing an accurate comparison with the average county wages. Without clearly defined statute or internal policy at GOED, we are concerned that this wage benchmark may not always reflect the legislative intent behind the definition of a “high paying” job. Utah is one of only two intermountain states surveyed that does not statutorily define the expected salary of incented jobs, as shown in Figure 6.1.

45 Id. at § 63M-1-2402(2)(a).
46 Id. at § 63M-1-2402(1)(c) (emphasis added).
47 See id. at § 63M-1-904(5)(a)(iii).
Though each state’s economic development incentives vary, most other intermountain states surveyed have a statutory definition of what constitutes a job worthy of incentives. Furthermore, GOED appears to be the only intermountain state economic development agency that awards corporate incentives based on the *average* company wage rather than each individual incented job.

GOED used this flexibility to incent jobs that actually pay less than the wage requirements, as addressed in Finding 1 and Finding 4, as long as the total *average* company wage—including the wages of existing employees whose hire dates predate the incentive period—meets or exceeds the minimum requirement. In addition, it appears that GOED is the only intermountain state economic development agency that includes company-paid health benefits in its reported wages of employees.

We believe the Legislature should clearly define what constitutes a high paying job, as other state legislatures have done.

**Clarification of “New” Jobs Would Strengthen the Corporate Incentives Program**

As previously mentioned, GOED has the statutory authority to issue tax credits to a company of up to 30 percent of new state revenue for up to 20 years. Based on the current statute, GOED continues to incent a company for a job created in the first year of the incentive for the entire length of the incentive period. Therefore, GOED would consider a job created in the first year of the incentive to continue to provide “new” state revenue for up to 20 years.

Figure 6.2 provides an example of a GOED-approved contract for Company I, which projects a job growth period that flatlines after year four of an eight-year contract. This particular company projected hiring nine employees in the first year of the incentive. This total projected jobs

---

48 “Flatlining” describes the point when a company no longer projects to create new incremental jobs, but is still scheduled to receive an incentive from GOED.
increases to 50 employees by the fourth year of the incentive, but flatlines for the remaining years of the incentive period.

### Figure 6.2 GOED Continues to Incent Companies for “New Incremental” Jobs for up to 20 Years After the Jobs Were Created

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Incremental Jobs Projected</td>
<td>9</td>
<td>21</td>
<td>1</td>
<td>19</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Projected Cumulative Jobs</td>
<td>9</td>
<td>30</td>
<td>31</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

*Source: Company I contract*

*Year 8 is a partial year, and not counted as a flatline year.*

We are concerned that GOED considers the nine jobs that Company I created in year 1 as “new” jobs for over six years after the jobs’ creation. Additionally, we are concerned that this company continues to receive a corporate incentive for nearly four years after it creates its contractually-required jobs.

In another example, Company J was nearing the completion of a five-year incentive when it approached GOED for a second time to request an additional EDTIF incentive due to the difficult economy and the costs associated with their “build out.” GOED could not provide the amount of money the company requested by simply increasing the tax credit of the incentive to the maximum allowable 30 percent, nor did GOED feel comfortable awarding 30 percent of new state revenue for what staff determined to be “call center” jobs. As a result, GOED elected to extend the incentive another five years—despite the company’s projection of zero job growth for those five years.

One incentives subcommittee member, acknowledging that this new contract would not actually create any new jobs, initially objected to this arrangement. Additionally, this incentives subcommittee member expressed concern regarding the precedent that this new contract would set. Despite concerns from this subcommittee member, GOED approved the corporate incentive.

Similar to other examples in this report, this example demonstrates the inconsistent treatment that companies can receive without formal rules and policies. It is unclear whether GOED would provide similar considerations for other companies. We are concerned that such inconsistent treatment may increase state risks and deter some companies from doing business with the state. We also believe that the Legislature should clearly define how long a “new” incremental job should be incented.

---

49 See Appendix B, transcript 3.
GOED Requires Most Companies to Create Less Than 50 Percent of Promised New Jobs

In some cases, GOED will continue to issue tax credits to companies that create only a fraction of the new jobs that the company projected to create. For example, a company could contract with GOED to create 20 jobs per year for five years for a total of 100 jobs. However, GOED only requires (by contract) that the company create a minimum percentage of those job projections each year to qualify for that particular year’s incentive. The employment projection criterion has typically been a minimum of 50 percent of the approved job projections for the first two years, after which time this requirement typically drops to 25 percent. Figure 6.3 shows an example of how company projections may compare to GOED requirements.

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Projected Jobs (Aggregate)</td>
<td>20</td>
<td>40</td>
<td>60</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>GOED’s Job Creation Requirement</td>
<td>50%</td>
<td>50%</td>
<td>25%</td>
<td>25%</td>
<td>25%</td>
</tr>
<tr>
<td>Number of Jobs Required for Incentive (Aggregate)</td>
<td>10</td>
<td>20</td>
<td>15</td>
<td>20</td>
<td>25</td>
</tr>
</tbody>
</table>

Source: OSA Analysis

Statutorily, GOED may not authorize a tax credit that exceeds “30 [percent] of the new state revenues from the new commercial project over the life of a new commercial project or 20 years, whichever is less.”50 However, this is the only statutory language that addresses the length of an incentive period, and although the Act requires that each incented project bring “new incremental jobs” to Utah, statute is silent on how many years over the life of the incentive must include new incremental job growth or for how long a newly created job should be incented. Thus, a company could continue to receive an incentive for creating “new state revenue,” even though it does not necessarily have to create actual new jobs in each year.

We reviewed all finalized contracts provided to us by GOED51 and found 48 EDTIF contracts that include a year-to-year projected job growth schedule. These 48 contracts represent 47 unique companies, one of which has two contracts for separate incentives. Overall, 18 of the 48 total contracts analyzed (38 percent) include projections for no additional job growth for at least the

---

50 Utah Code § 63M-1-2404(3)(c)(i)(B).
51 We received 76 unique contracts from GOED, along with a number of separate amendments to those contracts. We conducted our analysis on the assumption that GOED gave us all contracts in their possession, which was our request of them. These 76 contracts represent 72 unique companies. We then limited our analysis to the 50 EDTIF contracts, which represent 49 unique companies. EDTIF contracts represent those incentives approved after May 5, 2008, when the current EDTIF statute went into effect.
final two years of the incentive period. Furthermore, these 18 contracts project an average “flatline” period of 6.3 years but an average job growth period of just 4.6 years.

**Statute Grants Broad GOED Discretion in Awarding Corporate Incentive Length and Rate**

As mentioned above, the Act states a company may be paid up to 30 percent of new state revenue for up to 20 years or the length of the project, whichever is less. The broad authority granted by the Act allows GOED flexibility to determine the amount and length of an EDTIF award, as long as it is not more than 30 percent of new state revenue over 20 years. Such a generous time appears to be longer than similar corporate incentive programs offered by other intermountain states.

Figure 6.4 demonstrates a portion of an FIQ for Company K that GOED used to determine the appropriate incentive. The potential total EDTIF award that GOED could have approved according to this matrix ranges from $34,761 (5 years at 5 percent) to $1,651,505 (20 years at 30 percent)—a difference of over $1.5 million. We are concerned that GOED makes award decisions without quantifying, defining, and weighing applicable factors according to defined and consistently applied policy. In addition, we are concerned that GOED does not maintain documentation detailing factors and weights considered to provide a record of why a particular incentive was awarded or denied.

**Figure 6.4 FIQ Award Rate and Time Period Matrix**

<table>
<thead>
<tr>
<th>Potential Award Estimates</th>
<th>5</th>
<th>10</th>
<th>12</th>
<th>15</th>
<th>18</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>$208,569</td>
<td>$620,461</td>
<td>$803,036</td>
<td>$1,097,956</td>
<td>$1,420,224</td>
<td>$1,651,505</td>
</tr>
<tr>
<td>25%</td>
<td>$173,807</td>
<td>$517,051</td>
<td>$669,197</td>
<td>$914,964</td>
<td>$1,183,520</td>
<td>$1,376,254</td>
</tr>
<tr>
<td>20%</td>
<td>$139,046</td>
<td>$413,640</td>
<td>$535,357</td>
<td>$731,971</td>
<td>$946,816</td>
<td>$1,101,003</td>
</tr>
<tr>
<td>15%</td>
<td>$104,284</td>
<td>$310,230</td>
<td>$401,518</td>
<td>$548,978</td>
<td>$710,112</td>
<td>$825,752</td>
</tr>
<tr>
<td>10%</td>
<td>$69,523</td>
<td>$206,820</td>
<td>$267,679</td>
<td>$365,985</td>
<td>$473,408</td>
<td>$550,502</td>
</tr>
<tr>
<td>5%</td>
<td>$34,761</td>
<td>$103,410</td>
<td>$133,839</td>
<td>$182,993</td>
<td>$236,704</td>
<td>$275,251</td>
</tr>
</tbody>
</table>

Source: Company K FIQ

We believe that the Legislature should periodically review whether or not the amount and length of time of EDTIF awards continues to meet the needs of the state. In addition, the Legislature should assess the discretion that GOED currently exercises in determining the length and rebate rate of the incented period for applicant companies.

---

52 Flatlining at least two years means the job growth projection is the same for the final three years of the incentive. Only projected job growth schedules that conclude on a flatline are included. Neither midterm “plateau” years nor partial years in the final “year” of the incentive are counted toward flatline total.
Recommendations

1. We recommend that the Legislature clearly define key terms and concepts that influence the amount of corporate incentives given to companies, including:
   a. High paying jobs.
   b. New incremental job growth.
   c. Competition with other states for company relocation.
   d. Appropriate length and amount of rebate rates.
   e. Urban versus rural county designation.
   f. Significant purchases from Utah vendors.

2. We recommend that the Governor’s Office of Economic Development develop and follow written policies and procedures that establish minimum performance standards for companies applying for and receiving corporate incentives.

3. We recommend that the Legislature specify the length of time the Governor’s Office of Economic Development should be allowed to incent a “new incremental” job.

4. We recommend that the Legislature periodically determine when the current allowance of an incentive of up to 30 percent of new incremental revenue for 20 years is appropriate to accomplish the mission of economic development.

5. We recommend that the Governor’s Office of Economic Development ensure that contracts comply with statute and accomplish the intent of the corporate incentives program.
Finding 7  Limited Oversight Impairs GOED’s Accountability

Considering advice from its corporate incentives subcommittee, the Governor’s Office of Economic Development (GOED) can, with minimal oversight, dedicate future tax revenue to entice companies to relocate or expand in the state. The level of autonomy granted by statute led to questionable decisions, including the decision to double the length of one company’s incentive period though it was not necessary for the company to remain and expand in the state. We believe that GOED could strengthen their approval process to ensure that companies that relocate or expand in the state would not have done so without a corporate incentive.

Implemented policies and procedures, mentioned in Finding 6, in addition to greater legislative scrutiny, will minimize inappropriate actions. Additionally, more frequent independent reviews of GOED’s corporate incentives program will further safeguard the use of future tax revenue.

GOED Increased the Incentive Length to Twice What the Applying Company Sought

Nearing the completion of its original five-year contract, Company L approached GOED about revisiting the contract to add another five years. Under the original contract, the company was required to pay wages of at least 200 percent of the median county wage. However, the new contract, which took effect in year five of the original contract, lowered the requirement to 125 percent of the average county wage.53

Additionally, though the company would have accepted a new five-year extension to their original contract to remain and expand in the state, GOED, based on the advice of its incentives subcommittee, gave the company a new 10-year contract, which committed up to an additional $49 million of future state tax revenues. The company had already received $10.7 million from its first incentive, and GOED feared that the company might leave the state at some future point without another incentive.

One incentives subcommittee member expressed concerns about incenting a company for twice the length of time the company would have accepted.54 Admitting that this particular incentive would be criticized regardless of GOED’s decision, this incentives subcommittee member eventually agreed, and the subcommittee gave a favorable recommendation to GOED’s Board of

53 As originally enacted in the 2005 General Session, the Legislature defined “high paying” jobs as those that “compare favorably against the median wage of a community” (emphasis added). However, in H.B. 20 of the 2008 General Session, the Legislature changed the definition from “median” county wage to “average” county wage, the metric published by the Department of Workforce Services.
54 See Appendix B, transcript 4.
Business and Economic Development. GOED eventually agreed to this incentive, which provided this company with twice the incentive length it would have accepted.

Finally, the incentives subcommittee agreed that it would not necessarily recommend the same consideration for other companies. Granting incentive awards beyond what a company would accept to relocate or remain in the state appears excessive and outside the best interest of the state and its other taxpayers. Additionally, it appears that GOED treated this company differently than it treats other companies.

**GOED Should Ensure that Only Projects With Actual Competition Are Incented**

A fundamental principle determining the effectiveness of an economic development incentive is the assumption that a company would not relocate to or expand in Utah without the incentive. Companies relocate or expand for a number of reasons, including a state’s tax climate, workforce availability, utility costs, and/or quality of life.

Company executives typically have a fiduciary responsibility to maximize shareholder returns, causing them to pursue the “best deals” possible when expanding or relocating to another state. Similarly, GOED should have a responsibility to ensure that it is awarding the lowest amount of potential tax revenue necessary to attract or retain a company where a positive cost-benefit arrangement exists for other taxpayers. Although it would be difficult to guarantee that competition exists, there are additional safeguards employed in other states that GOED or the Legislature could enact to better protect against unnecessary or excessive incentive awards. GOED should also require companies to certify that the company would not relocate to or expand in Utah without the incentive.

Colorado statute, for example, requires additional documentation from prospective companies to ensure that competition exists including:

An identification of the cost differential in the projected costs of the project compared to the projected costs were the project commenced in a competing state. The cost differential shall include any impact of the competing state’s incentive programs and may include:

a. Specific costs for labor, utilities, taxes, and any other costs of a competing state’s site; and

b. The cost structure of the taxpayer’s industry in the competing state. ⁵⁵

We believe that GOED should consider requiring companies applying for a corporate incentive to provide greater assurances to policy makers that there is competition and that the incentive is an important criterion they used to decide to relocate or expand.

⁵⁵ Colorado Revised Statutes § 39-22-531(3)(b)(II).
Frequent Independent Review of Corporate Incentives Would Increase Accountability

While improved policies and procedures would strengthen controls to ensure consistency and accountability (see Finding 6), regular independent reviews could ensure that GOED follows policies and procedures and has an appropriate level of accountability. GOED has conducted two limited reviews of the corporate incentives process since 2012. However, each of these reviews admits that they are not comprehensive nor representative.

The Economic Development Incentives Act currently requires GOED to “conduct an audit of the tax credits” every five years, beginning in 2014. These audits should “make recommendations concerning whether the tax credits should be continued, modified, or repealed,” and evaluate “the cost of tax credits,” “the purposes and effectiveness of the tax credits,” and “the extent to which the state benefits from the tax credits.”

While these regularly-scheduled audits might help to ensure proper accountability, they will occur only once every five years. Due to the significance of the amount of future tax revenue which GOED has the ability to disburse, the Legislature should consider requiring a thorough independent audit of the corporate incentives program at least every third year. The Legislature may also consider requiring an annual independent review of performance statistics prior to receiving GOED’s legislative reports in order to ensure that legislative decisions are based on accurate data.

---

56 Utah Code § 63M-1-2406(3).
Recommendations

1. We recommend that the Governor’s Office of Economic Development justify each corporate incentive award to demonstrate that the award terms maximize the benefit to the state and its taxpayers.

2. We recommend that the Governor’s Office of Economic Development require companies to submit options presented by other states or countries prior to being awarded to receive a corporate incentive award.

3. We recommend that the Governor’s Office of Economic Development require companies to certify that they would not have relocated to or expanded in Utah without the incentive.

4. We recommend that the Legislature consider requiring a thorough independent audit of the corporate incentives program at least every third year.

5. We recommend that the Legislature consider requiring an annual independent review of incentive performance statistics prior to the Legislative General Session.
Finding 8  GOED Reported Misleading Wages of Projected Jobs

The Governor’s Office of Economic Development (GOED) misinformed stakeholders, including the public, regarding projected wages that a newly incented company will pay. GOED regularly reports inaccurately that all projected jobs that will receive Economic Development Tax Increment Financing (EDTIF) will pay more than the minimum wage requirement. According to individual company forecasts for those approved for an EDTIF award in 2013, approximately 25 percent of incremental new jobs created by EDTIF awards will pay less than the minimum wage requirement, despite GOED’s overstated public claims. Failure to accurately inform stakeholders leads to a misplaced assumption that EDTIF awards add more value than they actually contribute. GOED should accurately report projected and actual wages of new jobs in their communication with stakeholders and the public.

GOED Press Releases Misrepresent Company Wage Estimates

Almost 85 percent of GOED’s press releases for companies approved to receive an EDTIF award in 2013 falsely state or imply that all newly created jobs will pay more than the required average county wages, though the incented companies claim that many of these jobs will pay below that standard. GOED criteria requires the average wages to be equal to the county average wage for companies locating in rural counties and at least 25 percent more than the average county wages for companies locating in urban counties.

Many of the GOED press releases incorrectly stated that “[a]ll of the incented jobs pay at least 125 percent of the county’s average annual wage including benefits,” though most incented companies do not make a similar claim. Each company submits the estimated wages of new incremental employees with its application for the EDTIF. Only about 75 percent of the new employees listed in the company fiscal impact questionnaire (FIQ) in 2013 are estimated to make more than the required minimum wage for their respective counties (without benefits added). The following two examples highlight our concern.

One Incented Company Projects that 90 Percent of New Incremental Jobs will Pay Less than the Contractual Wage Requirement. According to the Company’s corporate incentives application, the company claims that most of the new incremental employees will be paid less than the required amount for the urban county in which it was relocating. However, GOED’s press release that announced the incentive for this company states,

57 GOED criteria requires that the average salary of the new incremental jobs pay at least 100 percent of the average county wage for rural counties or 125 percent of the average county wage for urban counties.

58 Press releases for rural counties state that “[a]ll of the [incented jobs] will pay at least 100% of the county’s average annual wage including benefits.”
“All of the incented jobs will pay at least 125% of the county’s average annual wage, including benefits.” (Emphasis added)

GOED’s public statement regarding this company conflicts with the company’s application, which states that few of the new incremental jobs created will pay above $55,508, or 125 percent of the applicable urban county average wage. Figure 8.1 shows the actual breakdown of anticipated wages provided by this company.

<table>
<thead>
<tr>
<th>Number of Positions</th>
<th>Average Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>205</td>
<td>$32,500</td>
</tr>
<tr>
<td>8</td>
<td>$37,500</td>
</tr>
<tr>
<td>16</td>
<td>$42,500</td>
</tr>
<tr>
<td>39</td>
<td>$47,500</td>
</tr>
<tr>
<td>8</td>
<td>$55,000</td>
</tr>
<tr>
<td>4</td>
<td>$65,000</td>
</tr>
<tr>
<td>5</td>
<td>$75,000</td>
</tr>
<tr>
<td>7</td>
<td>$85,000</td>
</tr>
<tr>
<td>2</td>
<td>$95,000</td>
</tr>
<tr>
<td>4</td>
<td>$112,500</td>
</tr>
<tr>
<td>2</td>
<td>$137,500</td>
</tr>
<tr>
<td>1</td>
<td>$162,500</td>
</tr>
<tr>
<td>1</td>
<td>$187,500</td>
</tr>
<tr>
<td>4</td>
<td>$225,000</td>
</tr>
</tbody>
</table>

**Company Projections Summary**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total New Jobs</td>
<td>306</td>
</tr>
<tr>
<td>Total New Jobs Above Required Minimum</td>
<td>30</td>
</tr>
<tr>
<td>Total New Jobs Below Required Minimum</td>
<td>276</td>
</tr>
<tr>
<td>Average Projected Wage</td>
<td>$43,562</td>
</tr>
<tr>
<td>Median Projected Wage</td>
<td>$32,500</td>
</tr>
<tr>
<td>Wage Requirement</td>
<td>$55,508</td>
</tr>
</tbody>
</table>

Source: Company H FIQ  
Note: Wages in red are below the average wage requirement for this county

Contrary to GOED’s press release, this incented company projects that the overwhelming majority of the new incremental jobs will pay less than 125 percent of the average county wage.

Additionally, the average wage of these new jobs is $43,562, which falls below the average county wage threshold for this urban county and, therefore, this company is not eligible for an EDTIF award. However, in order to facilitate this company’s qualification for the incentive, GOED added $12,000 in health benefits to the prospective average company wage. Even with the inclusion of health benefits, which we believe is a practice contrary to statute, the wages for nearly 75
percent of the new employees fall below the county requirement. Finding 5 addresses our concern that GOED adds certain non-wage benefits in the company wages, but does not account for such benefits in the average county wage against which the company wages are measured.

**An Incented Company Claims that Only 14 Percent of New Employees will Meet the Minimum County Wage Requirement.** Despite this admission by Company M, GOED stated in its press release that the new jobs created in this urban county would,

“*pay at least 125 percent of the county’s average annual wage including benefits.*”

This statement, which is similar to statements found in many press releases announcing EDTIF awards in 2013, misleads stakeholders to believe that all new jobs would pay at least 125 percent of the average-paying county job. Figure 8.2 shows the projected wages from the company’s EDTIF application.

<table>
<thead>
<tr>
<th>Number of Positions</th>
<th>Average Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>200</td>
<td>$32,500</td>
</tr>
<tr>
<td>104</td>
<td>$37,500</td>
</tr>
<tr>
<td>1</td>
<td>$42,500</td>
</tr>
<tr>
<td>15</td>
<td>$47,500</td>
</tr>
<tr>
<td>23</td>
<td>$55,000</td>
</tr>
<tr>
<td>4</td>
<td>$65,000</td>
</tr>
<tr>
<td>1</td>
<td>$75,000</td>
</tr>
<tr>
<td>6</td>
<td>$95,000</td>
</tr>
<tr>
<td>2</td>
<td>$137,500</td>
</tr>
</tbody>
</table>

**Company Projections Summary**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total New Jobs</td>
<td>356</td>
</tr>
<tr>
<td>Total New Jobs Above Required Minimum</td>
<td>51</td>
</tr>
<tr>
<td>Total New Jobs Below Required Minimum</td>
<td>305</td>
</tr>
<tr>
<td>Average Projected Wage</td>
<td>$38,202</td>
</tr>
<tr>
<td>Median Projected Wage</td>
<td>$32,500</td>
</tr>
<tr>
<td>Minimum Wage Requirement</td>
<td>$44,464</td>
</tr>
</tbody>
</table>

*Source: Company M FIQ*

*Note: Wages in red are below the minimum wage requirement for this county*

Contrary to GOED’s public statements, this company projects that the majority of the new incremental jobs will pay below 125 percent of the average county wage. Similar to wages from Company H in Figure 8.1, the average wage of Company M’s new incremental jobs is below the minimum required in order to receive a corporate incentive in this urban county. In order to facilitate company qualification for the incentive, GOED added company-paid health benefits to
the average wage of the new incremental jobs. This addition creates the perception that the company meets the standard for the EDTIF award; however, actual company wages fall short of the respective minimum county wage requirements. GOED should ensure that the company wages are measured against comparable standards to ensure a clear measurement of the impact of corporate incentives.

**Misleading Press Releases Overstate Economic Benefit of Corporate Incentives**

GOED’s external communication misleads stakeholders into believing that all jobs created through the EDTIF exceed their respective county minimum wage requirements. Additionally, the wording of some press releases appears to suggest that the incented company will provide health benefits in addition to wages in excess of the county wage requirement. In reality, however, many incented companies will provide wages that meet or exceed the county wage requirement only when the value of company-paid health benefits are included with wages.

The inaccurate and misleading press releases misinform the public and other stakeholders to believe that GOED’s corporate incentives attract higher paying jobs than they actually incent. By overstating anticipated company wages in its external communication, policy makers, taxpayers, and other stakeholders are led to believe that GOED’s corporate incentives have a greater impact than they actually have.

**Recommendations**

1. We recommend that the Governor’s Office of Economic Development accurately report job creation wages in their communication with stakeholders and the public.

2. We recommend that the Governor’s Office of Economic Development exclude the value of company-paid benefits in wages when reporting job creation.
Section 4:
Corporate Incentives Impact
Future Tax Revenue
Page Left Blank Intentionally
Finding 9  EDTIF Commitment Will Likely Double by 2024

The Governor’s Office of Economic Development’s (GOED) Economic Development Tax Increment Financing (EDTIF) commitment exceeds $600 million and will likely more than double in the next ten years, committing future tax revenue and further complicating state revenue forecasts. Additionally, the annual amount paid out in corporate incentives will likely increase by five fold over the same time period.

GOED could better ensure that EDTIF contracts are awarded only to companies meeting well documented pre-incentive economic criteria and are paid only to companies meeting rigorous post-performance controls based on verifiable data. Currently such concerns—which are discussed in detail in Finding 1 through Finding 5—question the integrity and execution of the corporate incentive program’s post-performance review process. The Legislature could also exert greater control over GOED’s ability to obligate future tax revenues by considering program spending caps.

EDTIF Payments Currently Represent a $655 Million Commitment

According to the state’s 2013 Comprehensive Annual Financial Report (CAFR), future EDTIF payments could exceed $600 million, assuming the incented companies produce the contractually agreed upon jobs and new state revenue. The CAFR identifies this commitment as follows:

At June 30, 2013, the [EDTIF] had outstanding long-term contract commitments for General Fund cash rebates of $94.749 million and Education Fund tax credits of $560.739 million. These cash rebates and tax credits are contingent on participating companies meeting certain economic development performance criteria.

Though the expressed commitment will be paid out over up to 20 years, and should be paid subject to company performance, a growing proportion of corporate income tax revenues in any given year may complicate the state’s ability to forecast future state revenue.

EDTIF Commitment Will Likely Approach $1.3 Billion by 2024

Given a simulation of recent trends, the EDTIF commitment will continue to grow significantly over the next decade if GOED continues the historical pace of new contract approvals. The promised tax credits are outside of the normal appropriations process. EDTIF commitments enter the budget process retrospectively when economists reduce the revenue forecast of income tax by the amount of potential tax credits claimed by companies. Figure 9.1 summarizes the likely
path of the growth in commitment and aggregate payments under the program based on a simulation of future program growth concurrent with recent experience.

**Figure 9.1  Summary of 10-Year EDTIF Projection.**

![Graph showing EDTIF Projection]

*Source: OSA Analysis*

The continued growth of GOED’s EDTIF commitment, shown in Figure 9.1, could further complicate future revenue forecasts. Conceptually, all EDTIF payments should be rebates of increased state revenue created by companies that would not do business in the state without such an incentive. However, we are concerned that the inadequate pre-incentive and post-performance controls documented throughout this audit report allow GOED to approve and award questionable long-term EDTIF incentives without a meaningful limit on their ability to forego future state revenue. GOED stakeholders—including the public, the Board of Business and Economic Development, and the Legislature—would benefit from additional information regarding the growing commitment of EDTIF awards.
Recommendations

1. We recommend that the Governor’s Office of Economic Development annually provide detailed information to stakeholders regarding:
   b. Verifiable jobs created.
   c. Detailed wages of incented jobs.
   d. Actual corporate incentives awarded.

2. We recommend the Governor’s Office of Economic Development establish a reasonable methodology to evaluate whether a company would expand or relocate to Utah in the absence of an EDTIF incentive during the pre-incentive evaluation process.

3. We recommend that the Legislature evaluate the long-term fiscal commitment of the state’s corporate incentives program to ensure that the financial commitment provides the desired cost-benefit tradeoff for the state.
Page Left Blank Intentionally
Finding 10   GOED Cannot Verify Employee Withholding Portion of EDTIF

An estimated 40 percent of all tax credits issued to companies by the Governor’s Office of Economic Development (GOED) through the Economic Development Tax Increment Financing (EDTIF) program are due to individual income taxes withheld from individual employees. Currently, GOED estimates the taxes paid by the employee based on the individual income tax withholding for new jobs created; however, GOED cannot verify the actual amount paid after the year-end tax reconciliation. GOED reduces the amount of company withholding by 25 percent for purposes of computing EDTIF award amounts.

Figure 10.1 shows that corporate income tax and employee-paid individual income tax withholdings represent 80 percent of the projected revenue generated by companies issued an EDTIF award. However, some companies could have a low corporate tax liability and be primarily awarded tax credits based on employee individual income tax withholdings, a cost borne directly by the employee.

**Figure 10.1  Estimate of EDTIF Payment Sources**

*OSA analysis of GOED and Tax Commission Data*
Prior to receiving a corporate incentive award, an incented company must provide GOED with “documentation of the new state revenues from the business entity’s new commercial project that were paid during the preceding calendar year.”  

In addition, statute states that “incremental new state tax revenues paid as individual income taxes . . . as evidenced by payroll records that indicate the amount of employee income taxes withheld and transmitted to the State Tax Commission” may be counted toward the new state revenue calculation. As mentioned above, companies actually report (and GOED calculates) individual income taxes withheld rather than individual income taxes paid in determining the amount of new state revenue generated from which to pay an award.

Although GOED is limited in providing a portion of new state revenues paid, GOED has no practical ability to determine that amount, nor do we believe GOED should have access to Tax Commission records regarding individual tax returns. The Legislature should decide whether GOED should continue to be allowed to award corporate incentives based on unverifiable income taxes.

**Recommendations**

1. We recommend that the Legislature consider whether the Governor’s Office of Economic Development should continue to have the authority to award unverifiable employee-paid income taxes to incented companies.

2. We recommend that the Governor’s Office of Economic Development provide annual reports to the Legislature regarding the sources and composition of corporate tax incentives.

---

59 Utah Code § 63M-1-2405(2)(b)(ii) (emphasis added).
60 Id. at § 63M-1-2403(8)(a)(iii) (emphasis added).
Appendix A  
Audit Scope, Methodology, and Limitations

A Performance Audit the Governor’s Office of Economic Development’s (GOED) Corporate Incentives Program was performed in an effort to evaluate the effectiveness of a program that has committed more than $600 million to incent companies to conduct business operations in Utah. The scope of the audit, which was narrowed based on a risk assessment conducted as part of the initial phases of the audit included an evaluation of the following:

- The effect that corporate incentives will have on future state revenue.
- Controls to determine which companies receive incentives.
- Controls to determine the amount that incented companies receive.

To this end, field work for this audit—which occurred from March 2014 to August 2014—included but was not limited to the following:

- A 10-year simulation based on program trends.
- A review of applicable state statute, Administrative Rules, and program policies and procedures.
- A review of available contracts, projections, and analysis for EDTIF awards approved from 2006 through 2012.
- A review of corporate incentive models used in six surrounding states (Arizona, Colorado, Idaho, Nevada, New Mexico, and Wyoming).

In the early stages of field work, we became aware of material deficiencies in GOED’s data tracking system (Salesforce). Therefore, analysis and recommendations were based on documents produced by GOED, the Department of Workforce Services, the Tax Commission, and incented companies to demonstrate their qualifications for an EDTIF award.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Data Reliability was a Significant Concern. Throughout the audit we encountered a number of material data reliability concerns, including: (1) undocumented internal review processes, (2) inadequate policies and procedures for post-performance payments, (3) insufficient company data storage, and (4) unreliable databases and data produced by GOED. Additionally, GOED initially restricted full access to office staff and personnel, limiting access to information and
delaying the audit. The new administration removed such restrictions and cooperated fully with the audit.

In some cases, GOED was unable to provide full and accurate data to conduct a comprehensive analysis needed to determine the full extent of concerns cited in this report. Despite concerns with the data, our analysis is based on the best available information that could be acquired. Nevertheless, we recommend that GOED make significant efforts to increase the reliability of its data, especially considering the amount of future tax revenue committed to be disbursed.
Appendix B  Select Corporate Incentives Meeting Transcripts

The following are transcripts of portions of corporate incentives subcommittee meeting recordings referred to in the audit report. The corporate incentives subcommittee is a non-quorum group of GOED’s Board of Business and Economic Development. As such, the subcommittee is not subject to the state’s Open and Public Meetings Act. Though GOED regularly creates recordings of subcommittee meetings, GOED has designated that such recordings are protected under the Government Records and Management Act (GRAMA).61

GOED also claims that the anonymized transcripts of those recordings created by the Office of the Utah State Auditor (OSA) are similarly protected and may not be released publically. The OSA took proactive steps to anonymize the transcripts by obscuring names of employees, board members, and companies as well as excluding confidential company information. The OSA believes these anonymized transcripts provide key insight into questionable decisions cited in the audit report and do not contain any information that should be considered protected by GRAMA. However, to comply with GOED’s classification, these transcripts were placed in this appendix which is provided under a separate confidential cover.

Transcript 1

REDACTED

61 Utah Code § 63G-2-305(35).
Transcript 2

REDACTED

Transcript 3

REDACTED
Transcript 4

REDACTED
Agency Response
Page Left Blank Intentionally
Dear Mr. Pulsipher,

The Governor’s Office of Economic Development (GOED) appreciates the opportunity to respond to Performance Audit No. 14-03, *A Performance Audit of GOED’s Corporate Incentives Program*. The primary program reviewed by your office was the Economic Development Tax Increment Financing (EDTIF) post-performance incentive, which has played an integral role in attracting new commercial projects and corresponding new state revenue to Utah during the last eight years. Since the inception of the EDTIF program, incented companies have created over 12,736 jobs and contributed over $120 million in net new state revenue to Utah’s coffers.

The EDTIF program encouraged businesses to invest in Utah during a period of unprecedented economic challenges and helped the state emerge from the Great Recession stronger than many of its national counterparts. Major companies such as Adobe, Proctor and Gamble and Goldman Sachs have established significant footholds in Utah and dozens of Utah-based companies such as IM Flash Technologies and Edwards Lifesciences have expanded here in part due to the EDTIF program. Those companies, along with many others, helped bring Utah’s unemployment rate from a high of 8.3% in 2010 down to today’s rate of 3.6%.

The EDTIF program was enacted to “address the loss of prospective high paying jobs, the loss of new economic growth, and the corresponding loss of incremental new state and local revenues by providing tax credits to attract new commercial projects in the state.” See Utah Code Ann. §63M-1-2402. The Audit focuses primarily on the creation of jobs and not on the program’s other purposes: attracting new commercial projects and increasing state and local revenue. The Audit provides insight within its narrow area of...
focus and we have adopted and are adopting many of the recommendations your review suggested.

Nearly one-third of the Audit Report’s recommendations are directed towards the Legislature and concentrate on the statute establishing the program. Because GOED’s role is to carry out the mission given to it by the Legislature, a comprehensive evaluation of the program’s effectiveness requires consideration of all its purposes and a few key policy issues.

First, unlike many other states’ corporate incentives programs, the Utah State Legislature purposefully established the EDTIF program as tax increment financing rather than as a per-job incentive. This unique structure allows the State to consider not only projected job creation, but also the positive impact of a new commercial project on local and state tax revenues when contemplating a corporate incentive offer. It also ensures that the State does not provide a tax credit until a new commercial project has generated new state revenue.

The EDTIF program has succeeded in its mission to increase incremental state revenue. In January 2014, certified public accountants with the firm of Haynie and Company found that the “average new state revenue earned per dollar spent was calculated to be $3.19.” Haynie and Company calculated a return on investment of over 3 to 1, year over year in direct Return on Investment. If calculated, the indirect and induced Return on Investment would significantly increase the value of the program. The Haynie report is attached hereto as Appendix A.

Second, the Report’s narrow focus does not take the context of the Great Recession into account. Legislation establishing the program wisely provided flexibility for adjustments in times of economic hardship. Many of the decisions evaluated in the Report were made in response to the worst global downturn since World War II. The unprecedented economic challenges of the time proved difficult, but with the unique structure of the program, including its flexibility, GOED was able to provide tailored incentives to promote new economic growth in Utah. The EDTIF program’s success during this downturn remains evident: Utah’s economy has bounced back and unemployment rates are low compared to many of our national counterparts. The Report questions the Legislature’s wisdom in creating a dynamic, flexible program. The scope of the Report does not take into account the flexibility that helped Utah weather and overcome the effects of the Great Recession.

The Audit Report excludes references to continuous process improvements made to the program, both throughout its life and in response to issues the Office of the Utah State Auditor (OSA) team raised during the audit period. We note that several redundant findings and recommendations are included in the Audit Report. Additionally, the
Report overstates some findings that only applied to one or a few companies and fails to consider the contextual overlay in these statistically insignificant anomalies.

We recognize that the Auditor, the Legislature and the people of Utah trust our office to be good stewards of state resources, and we take that solemn responsibility seriously. To that end, we continually seek to enhance and strengthen our programs. Based on the review conducted by your office, we are in the process of re-drafting our Administrative Rules and formalizing through policies and procedures a number of practices. We have also revised our standard incentive contract templates to address some of the issues your team identified and we have updated our media releases. We thank you for your suggestions and anticipate these changes will help us continue to achieve the mission given us by the Legislature and to help ensure Utah remains the best managed State in the Nation.

On the following pages, you will find our comprehensive responses to your Findings and Recommendations.

Very truly yours,

Q. Val Hale
Executive Director
Below are our comprehensive responses to your findings and recommendations.

Finding 1: GOED’s Undefined Post-Performance Review Process Allows Questionable Corporate Incentive Awards

GOED Response: GOED enter into a contract with each company that receives an EDTIF award. Each contract defines the term of the incentive period, the maximum incentive amount that may be earned over the term, what percentage of the incentive may be claimed year over year and GOED’s post-performance review process to determine whether an incented company may qualify for a tax credit in any given year. GOED believes these parameters are well-defined in each contract and that these terms have prevented “questionable” awards.

The tax credit is a rebate on the taxes that the business paid into the State. A company must apply for a tax credit each year throughout the term of the incentive agreement with the State. In order to qualify, the company must demonstrate that it generated incremental new state revenue and that it has not reached the cap, or maximum incentive amount. Typically, the company provides employment records (if job creation is required by the contract) and other evidence of taxes paid. This information is then audited by GOED to determine whether the threshold contractual obligations, such as job creation (FTE creation or headcount) and wage requirements, were met. If the contractual requirements were met and the taxes have been paid, a tax credit will be issued.

In stating that GOED “allowed questionable corporate incentive awards,” the audit focuses on the job creation and wage criteria in a few of GOED’s contracts.

With respect to job creation, the enabling legislation requires simply that an incented company “bring new incremental jobs to Utah.” See Utah Code Ann. §63M-1-2404. “New incremental jobs” are defined in statute as those that are “created in addition to the baseline count of employment positions that existed ...before the new commercial project.” Utah Code Ann. §63M-1-2403. While the statute only requires “new incremental jobs,” GOED’s policies additionally require a new commercial project to forecast the creation of at least 50 incremental jobs to qualify for an incentive. And, while the statute defines “high paying jobs” as those that “compare favorably” against the average wage of the community where the jobs exist, GOED’s policy is to require that an urban job pay at least 125% of the county average wage. This wage is required in the aggregate and on average and includes company-contributed health benefits.

In Finding 1, OSA’s assertion that Company A failed to meet its contractual requirements is based on a misunderstanding of the multi-step EDTIF annual review process. The process is explained below.

---

1 In the early years of the program, job creation was not always included as a contractual requirement, however, incremental new state revenue always has been.
2 Note that Tanner reviewed 64% of all GOED payouts, and all payments referenced by OSA in this report.
3 Only one rural project out of 127 companies/144 approved projects projected wages below 100% of the rural
GOED’s annual review permits combining full time equivalents (FTEs) that fill the same position over the course of the year and annualizing wages to account for jobs created throughout a given contract year. Combining FTEs into one job protects the program from overstating new jobs created. Annualizing new jobs added during the year accounts for growth of a company hiring throughout the year and equalizes the wage data collected to actual performance.

GOED does not combine FTEs or annualize jobs in every review. As demonstrated in the multi-tiered process below, if a company meets its contractual requirements in Step 1, the review does not continue for additional analysis, such as the combining of FTEs or annualization of wages. If the company does not appear to meet its obligation on first review, the review continues through the multi-step process until a conclusion is reached regarding compliance.

Company A met both the statutory and contractual criteria for its incentive. However, GOED had to go past Step 1 to the multi-step process to confirm that the criteria were met. The table below demonstrates the process that GOED followed to conclude that Company A exceeded the wage criteria by $1,438.13 and met the FTE requirement.

**Job and Wage Criteria Multi-Tiered Validation Process**

<table>
<thead>
<tr>
<th>Description</th>
<th>Average Wages</th>
<th>Above or (Below) Wage Requirement</th>
<th>Required Jobs</th>
<th>Total Wages</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company A</td>
<td>$ 33,594</td>
<td></td>
<td>59</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“Raw” Grand Totals</td>
<td>$ 24,092</td>
<td>$ (9,502)</td>
<td>79</td>
<td>$ 1,903,280</td>
<td>Company Submitted ADP Reports</td>
</tr>
<tr>
<td>After Step 1 of combining of replacement positions. 37 FTE combined to 19 positions</td>
<td>$ 31,721</td>
<td>$ (1,872)</td>
<td>60</td>
<td>$ 1,903,280</td>
<td>Step 1: Combine FTEs to one job that replaced another. This is done by ensuring that employees have contiguous termination and hire dates, combined months employed is between 9 to 12 months and that individual hours per week are greater than or equal to hours specified in contract FTE definition and have the same department and similar position titles.</td>
</tr>
<tr>
<td>After Step 2 of Annualizing</td>
<td>$ 35,032</td>
<td>$ 1,438</td>
<td>60</td>
<td>$ 2,101,913</td>
<td>Step 2: annualize the new jobs added during the year that a full annual wage was not reported.</td>
</tr>
<tr>
<td>No need to continue with Step 3 company qualifies in step 2</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Step 3: If allowed by contract add the actual company contributed medical benefits to individual wages.</td>
</tr>
<tr>
<td>No need to continue with Step 4 company qualifies in step 2</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>Step 4: This is a bottom up analysis considering all individual records of the jobs file and qualifying on an individual basis.</td>
</tr>
</tbody>
</table>

Although the multi-step review process is part of GOED’s performance review, contractual performance is typically demonstrated in the first step of review and additional analysis is not required. The table below shows that of all 183 payments made by the program, only 19 payments were issued after additional analysis.

<table>
<thead>
<tr>
<th>Total Number of Payments</th>
<th>183</th>
<th>$ 58,486,835</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Payments Based on Wage Data that includes: Combining Jobs, Disqualification, or Addition of Health Benefits</td>
<td>19</td>
<td>$ 7,539,043</td>
</tr>
<tr>
<td>% that Require Additional Analysis</td>
<td>10.4%</td>
<td>12.9%</td>
</tr>
</tbody>
</table>
With respect to Company B, while it is true the Company either met its contractual wage or its contractual FTE requirement, OSA fails to report that GOED reduced the incentive amount by 68% to correspond to the company’s performance, and that Company B only received one incentive payment of $12,714. GOED acknowledges that Company B’s incentive could have been better documented and is implementing policies and procedures to ensure better documentation in the future.

With respect to Company C, GOED required the company to create 14 FTEs that met the wage criteria set forth in the contract (approximately $52,020/year). During the years in question, the company did perform: more than 14 FTEs were created that met the wage requirements, as well as several other jobs that were below the wage requirement set forth in the contract. Due to the additional jobs created by Company C, the average wages for Company C did not meet the $52,020 threshold. However, GOED used its statutory discretion to incent the company based on its meeting the actual performance requirements of 14 FTEs that met the wage criteria (instead of using the average) per the terms of the contract. GOED made this decision during the worst period of the economic downturn and with the knowledge that even the lower paying jobs would “assure adequate employment for, and the welfare of, Utah’s Citizens.” Utah Code Ann. §63M-1-2402.

Economic conditions are not stagnant and GOED appreciates the discretion that the Legislature built into the Statute so GOED can respond to market conditions. Company D should be lauded as an example of how this flexibility allowed GOED to attempt to create more value for the state of Utah. Company D was originally approved for an incentive with a wage requirement of 175% of the average county wage. The company expanded in Utah and created jobs that paid 168% of county average wage. The company asked GOED if it could still claim its incentive. Rather than turning this company away for creating jobs paying 168% of Salt Lake County average, GOED used its discretion to create more value for the state. Through a process that went through a public Board meeting, GOED adjusted the contractual wage requirement to the program minimum requirement of 125% in exchange for requiring the company to hire an additional 50 employees and reduced the overall incentive amount by $3,000,000.

In all four of the businesses criticized in Finding 1, only one annual payment to each company was questioned. In the event any audit or review identifies an incorrect payment, GOED contracts allow for adjustments to future payments to offset an overpayment. The contracts also contain a recapture provision that survives three years after the term of the contract expires. So even after the maximum incentive is reached, a “look back” period allows GOED to adjust and recapture if errors are made.

In sum, GOED disputes the finding that its process allows questionable awards. To the contrary, GOED believes that its flexible process allows it to adjust awards to market conditions, and that its multi-tiered review process ensures that companies receive the incentives to which they are entitled, and that overpayments or errors can be recaptured and resolved.

**Recommendation 1:** We recommend that the Governor’s Office of Economic Development formally create a written process for how all future post-performance corporate incentive reviews should be conducted.

Since the inception of the EDTIF program, GOED has adhered to the review process standards set forth in statute (Utah Code Ann. §63M-1-2404 - 2405) and its own internal standards as outlined in each EDTIF agreement. Furthermore, GOED has consistently used an Audit Procedures guide to ensure that
each disbursement met the statutory and contractual standards found in the standard GOED contract template. GOED is currently in the process of formalizing additional audit procedures as formal policies and procedures.

Moreover, third party independent reviews performed on the program, as required by statute, have found awards under the annual review process to be appropriate. A review performed this year found no questionable awards, with the exception of one business that was underpaid, by $2,000.00\textsuperscript{2}. Tanner and Company performed the third party independent analysis.

The adjustment and recapture provisions explained above provide another avenue to ensure that there are no “questionable awards.”

**Recommendation 2: We recommend Governor’s Office of Economic Development clearly document criteria used to assess company performance and how the company met those requirements to justify an award payout.**

GOED Response: As stated above in Finding 1 Recommendation 1, GOED is currently in the process of formalizing additional audit procedures as formal policies and procedures and appreciates the suggestion and opportunity to improve.

It may be helpful to provide some general context on the relationship between GOED and incented companies. That relationship is premised on the idea that if a company creates new jobs and generates new tax revenue in Utah, the Company may claim a tax credit.

In performing the annual audit as described previously, GOED documents all verification of the company submitted data and makes any adjustments to the annual request for a rebate that might not be consistent with data received from the other outside verification sources, such as the Utah Tax Commission and the Department of Workforce Services.

Workforce Services’ record reviews were added in response to a 2007 Audit from the Office of the Legislative Auditor General. In *A Performance Audit of the Governor’s Office of Economic Development Report 2007-04*, OLAG recommended: “in our opinion, detailed company payroll reports form the clearest evidence of jobs meeting the incentive requirements. Optimally, there should also be a source of independent verification, for example a report from the Department of Workforce Services (DWS).”

From 2008-2013 these reviews and reports were documented in Excel spreadsheets, printed and saved in hard copy files. Starting in 2014 the annual reports began to be submitted online through our customer relationship management (CRM) system and all notes and adjustments that justify payments are documented and accessed through that system going forward.

OSA is incorrect in asserting that GOED’s lack of documentation allows GOED to “recalculate(s) company data until the corporate incentive payment can be justified.” First, the multi-tiered process explained above ensures that deserving companies get their credits, not that undeserving companies can sneak

\textsuperscript{2} Note that Tanner reviewed 64% of all GOED payouts, and all payments referenced by OSA in this report.
through. Second, the number of actual tax credits issued belies this claim. Of the total potential tax credits authorized by the GOED Board through 2012, there could have potentially been 344 tax credits issued. Of those potential 344 tax credits, GOED actually issued 183 tax credits, or 53.2%, based on performance. Thus, only about half of the payments claimed to date have been verified by GOED and paid. GOED acknowledges that OSA correctly identified one instance where either the contractual wage or jobs criteria were not met, Company B. In that instance, Company B received a partial incentive for partial performance.

**Recommendation 3: We recommend that the Governor’s Office of Economic Development only consider new employee wages to determine if a company qualifies for a corporate incentive award.**

GOED Response: With regard to EDTIF legislation, “new incremental job” has always been defined as “employment positions created in addition to the baseline count of employment positions that existed within the business entity before the new commercial project.” Utah Code Ann. § 63M-1-2403. GOED has always sought to evaluate new employee wages based on that statutory requirement/definition.

To the extent feasible, GOED only considers incremental employee wages to determine if a company qualifies for a corporate incentive award. However, there are certain instances where it is not possible to clearly determine which wages are incremental.

GOED uses data from DWS to verify wage and job requirements. DWS data shared with GOED is only available for whole companies and is not broken down by individual employee. Therefore, in order to verify company reported data with DWS’ data, GOED’s practice has been to look at the company wages as a whole in instances where it is not feasible to separate out the incremental employees.

GOED takes exception to OSA’s claim that there was “insufficient documentation” to fully evaluate wage data. While OSA focused primarily on information provided from the customer relationship management (CRM) system GOED is currently using in Beta (not final) form, GOED uses additional information to verify wage data, including company records, which OSA questions as verifiable due to the source. However, the Office of Legislative Auditor General’s 2007 audit suggested using this very approach. In this instance GOED has followed the recommendation of OLAG, but welcomes specific suggestions on how to receive even more verifiable data.

**Recommendation 4: We recommend that the Governor’s Office of Economic Development issue corporate incentive awards to only companies that fulfill their contractual obligations.**

GOED Response: GOED, again, disagrees with the insinuation that GOED incents companies who fail to meet their contractual obligations. As explained in Finding 1, GOED has been amenable to modifying incentives to respond to market conditions or in situations where a modification will benefit Utah and its citizens. Please see Finding 1, Recommendations 1-3 above for further explanation and reasoning.

**Recommendation 5: We recommend that the Governor’s Office of Economic Development incent only jobs whose wages “compare favorably against the average wage of a community in which the employment position will exist.”**
GOED Response: Pursuant to Utah Code Ann §63M-1-2401 et. seq., GOED incents “new commercial projects.” In any “new commercial project,” there will be a variety of employment positions created. The EDTIF statute requires all new projects to create “new incremental jobs” (those above the baseline). OSA confuses this requirement with GOED’s discretion to require a project to create “high paying jobs” (those that “compare favorably” with community averages). “Incremental jobs” are required in an incentive, “high paying jobs” are not.

While “high paying jobs” are not required, GOED does impose the requirement on many companies. As defined by statute, a “high paying job” means, “the annual wages of employment positions in a business entity that compare favorably against the average wage of a community in which the employment positions will exist.” Utah Code Ann. §63M-1-2402(4)(a). OSA has interpreted the term “compares favorably” to mean “exceed.” However, if the Legislature had intended the statute to read “exceed” it could have used that phrase rather than the more flexible term, “compares favorably.” GOED disagrees with OSA’s interpretation of that term.

As the governmental entity that administers the program, GOED has used its discretion to interpret the term “compares favorably” to mean, in general, a 125% aggregate average wage threshold for projects in urban counties and 100% for projects in rural counties. These aggregate averages include benefits. These self-imposed practices generally exceed other intermountain states’ wage requirements.

GOED has accomplished the legislature’s mission to attract jobs whose wages “compare favorably.” The average wage has been increasing across the state as shown in Figure 3.1 of OSA’s report. Moreover, 76% of all disbursements made by GOED have been claimed by companies whose average project wage is greater than 150% of the required benchmark excluding benefits. The graph below shows the average wages of “new commercial projects” that have actually received an incentive payment compared to their corresponding county wage.

Of the 183 incentive payments, 55% went to companies whose total average project wages exceeded 200%, 21% went to companies whose total average project wage exceeded 150% and 24% went to...
companies whose total average project wage exceeded 100%. No payments were made to companies whose total average project wage did not exceed 100%.

OSA mentions Company B and C as examples of incenting jobs whose wages don’t “compare favorably,” but that is not an accurate portrayal. GOED does not incent jobs; it incent new commercial projects that have a mix of employment opportunities.

GOED disagrees with the OSA’s report that GOED “rationalized” an incentive to Company C. GOED used its multi-tiered review, as described in Part 1. While the process GOED uses to determine average wage is not prescribed in statute, it has been detailed through consistent practice. Combining FTE positions and annualizing wages are “common sense adjustments” that account for job creation by an incented company throughout the year and the nature of an FTE. As mentioned previously, GOED incent new commercial projects, not jobs. The nature of new commercial projects is such that they will create a mix of employment opportunities, from executive or management positions to blue collar positions, all of which provide value to communities and generate new revenue for the state.

Additionally, the enabling legislation sought to provide “a cooperative and unified working relationship between state and local economic development efforts.” Utah Code Ann. §63M-1-2402. GOED believes that local communities are best situated to advise GOED on which projects it considers to “compare favorably.” GOED has never incented a project without local support.

**Recommendation 6: We recommend that the Governor’s Office of Economic Development refrain from retroactively lowering company wage or job requirements.**

GOED Response: Please see our introductory comments to this Finding related to Company D. Through a public process that went through an open GOED Board meeting, GOED adjusted Company D’s contractual wage requirement to the program requirement of 125% in exchange for requiring the company to hire an additional 50 employees and reduced the overall incentive amount by $3MM, thereby creating additional value for the State. The OSA’s recommendation would prevent GOED from adjusting incentives for the benefit of Utah’s citizens.

**Finding 2: Unverifiable Jobs Data Prevent GOED From Validating Performance for Some Companies**

GOED Response: The OSA takes issue with GOED’s practice of allowing a new commercial project to lease employees through a professional employer organization, or “P.E.O.” While the statute contemplates that employees of a “new commercial project” may be employed by an entity other than the “business entity” claiming the tax credit, GOED ensures that any leased employee is dedicated full-time to the new commercial project by requiring the submission of employee records from the P.E.O. prior to issuing a tax credit that includes any portion of employee wage withholding tax.

**Recommendation 1: We recommend that the Legislature determine whether an incented company should be allowed to include contractors as part of the company’s commitment to creating new jobs.**

GOED Response: The Legislature has determined that the use of leased employees is allowed per the statute. In Utah Code Ann. § 63M-1-2403(8)(a)(iii) the term “business entity” is not included in the wage withholding section of the statute and requires only that an employee be an employee of the new commercial project. Aside from the actual language of the statute, GOED believes that the Legislature
did not intend for a governmental entity to dictate to private businesses how to run their operations. If a company finds it more efficient and cost effective to lease employees or use a professional employee organization, GOED does not believe it is in a position to discourage this practice, nor that the Legislature prefer it do so. However, as set forth above, GOED does require verification of the leased or PEO jobs prior to approving an incentive amount. In any case, very few incented companies use PEOs, as illustrated below.

<table>
<thead>
<tr>
<th>Total Number of Companies Approved for Incentives by GOED Board to Date</th>
<th>127</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies that Use Leased Employees</td>
<td>6</td>
</tr>
<tr>
<td>% that Use Leased Employees</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

**Recommendation 2: We recommend that the Governor’s Office of Economic Development create a reliable verification process for any newly created jobs used to receive an incentive award.**

GOED Response: It has been GOED’s practice to calculate incremental revenue based on jobs that can be verified. The OSA questions GOED’s ability to verify jobs that are managed by a PEO instead of directly by the company, and cites companies E and F as examples. OSA’s assumptions about the number of verifiable jobs in Companies E and F are incorrect. OSA only relies on jobs that are reported to GOED by DWS. But the other claimed jobs, per OLAG’s audit recommendations, were also independently verified by GOED through the submission of documentation between the business entity and the PEO. The jobs that were not reported by DWS were reported and verified through some of the most reputable professional employee organizations in the world. While GOED believes that the threat of inaccurate information is extremely low given the reputation of the companies, in response to this audit, GOED has modified its contracts to require a signed certificate of compliance as an additional tool to discourage misrepresentation and thanks OSA for providing this suggestion.

**Finding 3: GOED Progressively Reduced Wage Requirements for Incented Companies**

GOED Response: For years, the minimum program requirements have remained the same: that a new commercial project’s jobs pay an aggregate average of 125% of the urban county wage and 100% of the rural county wage. This has not changed or been reduced. There have only been two changes to the program requirements: the first was to migrate from a median county benchmark to an average county benchmark, which had the effect of increasing the wage requirements, and the second was to allow company contributed health benefits to count towards the wage requirement. It serves to reiterate that these are self-imposed requirements not mandated by statute.

While the program requirements have not changed, GOED has standardized its contract language to conform to the minimum program requirements, as opposed to negotiating the requirements on a per contract basis. GOED standardized the contracts in an effort to be more consistent, transparent and to streamline performance reviews.

GOED has achieved the legislature’s mission to “create higher paying jobs that will lift the wage levels of communities in which those jobs are created.” Utah Code §63M-1-2402(1)(c). As the incented companies fulfill their contractual obligations and bring both incremental and high paying jobs to Utah,
one should expect that the average county wages would increase. GOED is pleased that OSA’s data proves that this is so.

GOED does not dispute the data in Figure 3.2 of OSA’s report, only the analysis. Figure 3.2 represents averages of averages and does not reflect the actual wage against which GOED benchmarks a given project. Furthermore, as GOED has previously stated, the EDTIF is not a “per job” incentive, and incentive disbursements are awarded based on the revenue created by a new commercial project.

**Recommendation 1:** We recommend that the Governor’s Office of Economic Development perform an economic analysis consisting of a cost-benefit analysis to determine the appropriate wages at which urban and rural companies should be incented.

**GOED Response:** GOED constantly strives to improve its processes and programs and will continuously evaluate the program’s non-statutory requirements, in light of both the economic climate and competitive incentives offered by other states.

**Recommendation 2:** We recommend that the Legislature clearly define the minimum threshold for newly created high paying jobs must meet to receive a corporate incentive award.

**GOED Response:** Of course, the Legislature has the ultimate discretion to decide whether it wants to migrate towards a more defined program. However, as mentioned previously, GOED’s current practice is actually more conservative than the statutory requirements implemented by other intermountain states, as demonstrated by the graph below. To promote public input on this requirement, GOED will publish a re-draft of its Administrative Rules formalizing this practice.

<table>
<thead>
<tr>
<th>State</th>
<th>Statutorily Defined Wage Criteria?</th>
<th>Wage Criteria Definition</th>
<th>Forbes &quot;Best State For Business&quot; Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>Yes</td>
<td>100%</td>
<td>24</td>
</tr>
<tr>
<td>Colorado</td>
<td>Yes</td>
<td>100%</td>
<td>5</td>
</tr>
<tr>
<td>Idaho</td>
<td>Yes</td>
<td>100%</td>
<td>25</td>
</tr>
<tr>
<td>Nevada</td>
<td>Yes</td>
<td>100%</td>
<td>36</td>
</tr>
<tr>
<td>New Mexico</td>
<td>Yes</td>
<td>$40,000/year for &quot;Rural&quot; $60,000/year for &quot;Urban&quot;</td>
<td>45</td>
</tr>
<tr>
<td>Utah</td>
<td>No</td>
<td>Internal Policy: 100% in Rural* 125% in Urban*</td>
<td>3</td>
</tr>
<tr>
<td>Wyoming</td>
<td>N/A</td>
<td>N/A</td>
<td>23</td>
</tr>
</tbody>
</table>

*Includes Company Contributed Health Benefit Premiums*  

GOED disagrees with OSA’s criticism that GOED progressively lowered its criteria, when simultaneously comparing those self-imposed guidelines against states with less prescriptive requirements. Also, as mentioned before, GOED relies on the flexibility provided by the Legislature to adjust to varying economic conditions. The flexibility the Legislature wisely built into the Statute allowed Utah to include company-contributed health benefits to successfully promote investment in Utah during a period of
unprecedented economic turmoil and uncertain healthcare regulation, which also furthered the legislative mission of assuring “adequate employment for, and the welfare of, Utah citizens.”

Moreover, Figure 3.1 of OSA’s report is inaccurate because OSA has recalculated median wages and converted them to average wages. The data is also inaccurate as the contractual wage requirements for 2008-2010 include a mix of percentages of average and median wages that differ from project to project. In any event, Figure 3.1 highlights GOED’s effort to be more consistent in recent years.

**Finding 4: GOED Incents Jobs that Pay Below the Wage Requirements**

GOED Response: The OSA takes issue with GOED’s practice of requiring a new commercial project’s high paying jobs to average in the aggregate 125% of the county average wage (or 100% in rural counties), including benefits. This practice is appropriate given that the program was established by the Legislature as tax increment financing and not as a per jobs incentive. As mentioned previously, GOED does not incent jobs, but rather it incents new commercial projects that typically have a mix of employment opportunities but that must generate tax increment in order to receive an incentive. GOED self-imposes a hiring requirement on new commercial projects for them to qualify for a tax credit in a given year, but incents the company based on the revenue added to the State’s coffers after the revenue has been recognized.

**Recommendation 1: We recommend that the Governor’s Office of Economic Development only incent jobs that pay a wage exceeding the community average wage, thus lifting the wage levels of the state’s communities.**

GOED Response: This recommendation is reiterated in Finding 1, recommendations 4, 5, and 6. In Figure 3.2 of the OSA Report shows that the average urban county wage is increasing; accomplishing the Legislature’s mission to: “provid(e) tax credits to attract new commercial projects in economic development zones in the state.” (Utah Code Ann. § 63M-1-2402(2)(a)) Further, verifiable data indicates that incented projects’ average wages exceed the urban average. The graph below shows the average wage of all EDTIF companies in urban areas compared to the average wages of urban areas.
You can see companies that have received incentives from the State perform well above the urban area average and that the EDTIF company wages are lifting the county wages year over year.

**Recommendation 2:** We recommend that the Governor’s Office of Economic Development issue an annual report to the Legislature that discloses the wages paid for newly created jobs receiving the incentive.

GOED Response: GOED produces an annual report for the Legislature per Utah Code Ann. § 63M-1-2406, and would be willing to provide data, by industry, that shows the average wage for companies receiving the tax increment incentive should the Legislature demonstrate an interest in this information.

**Finding 5: Inclusion of Company-Paid Health Benefits Inflates Wages**

GOED Response: This finding is a reiteration of Finding 1, Recommendation 5 and other recommendations throughout the Report. As stated previously, GOED began including company contributed health benefits to promote benefited jobs surrounding the Affordable Care Act discussion and to spur additional new commercial projects as Utah headed into the global downturn. This decision was made in consultation with members of the GOED Board. This use of discretion, given the economic climate, was made to accomplish the legislative mission to attract new economic growth and may be modified as economic conditions continue to improve or if obviated by changes in health care law.

The OSA takes issue with including benefits as part of overall “wages” because the Department of Workforce Services does not publish an average wage including benefits. Recognizing that the
Comparison is not strictly equal, we would note that increasingly companies report the total compensation, including benefits, when posting job openings. Even the State of Utah uses this calculation in responding to public records requests for its employee wage information. Despite this difference of opinion in whether total compensation should be included in GOED’s decision matrix, it is important to note that the projected aggregate average wages of all new commercial projects incented in urban counties exceeded the county average without benefits.3

Recommendation 1: We recommend the Governor’s Office of Economic Development only include employee wages, and not employer-paid health benefits, when determining whether the company's new incremental jobs meet the average county wage criteria.

GOED Response: Employer contributed health benefits are a factor both during the initial qualification of a company for an incentive award and during the annual compliance period. Companies originally seeking an EDTIF award must project that on average and in the aggregate the proposed jobs pay 125% of the county average wage, including health benefits. Once an EDTIF has been offered, an incentivized company must meet the contractual job and wage requirements each year. While GOED by practice (in its multi-tiered review, explained in Finding 1) would count employer contributed health benefits towards a company’s performance wage requirements, to date there has only been one tax credit issued that utilized health benefits as part of the post-performance wage calculation. On average, the companies that GOED incents have an average wage of 158% above the Salt Lake County wage, excluding benefits.

The OSA uses Companies G and H as examples of wage inflation. However, OSA misstates the actual projections of these companies, which demonstrate that without health benefits, the companies both projected average aggregate annual wages of 100% or more.

Below are the projections for Company G and Company H that were approved by the GOED Board.

| Company G | State of Utah Incentive Application - County Wage Criteria Estimate* |
|-----------|-----------------------------|---|---|---|---|---|
| Calendar Year*** | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Employees (total annual as of December 31) | 100 | 70 | 50 | 65 | 80 | 100 |
| Wages, Salaries, & Bonuses (paid as of December 31) | $482,234 | $482,234 | $513,395 | $568,236 | $53,395,344 |
| Average Wages, Salaries, & Bonuses (paid as of December 31) | $46,234 | $47,632 | $50,000 | $52,051 | $52,051 | $50,347 |
| Benefits - Company Contributed Health Premiums (excluding health, vision, etc.) | $115,963 | $125,954 | $131,001 | $135,994 | $131,001 | $139,680 |
| Average Benefits - Company Contributed Health Premiums (excluding health, vision, etc.) | $11,596 | $11,502 | $12,260 | $12,628 | $13,007 | $13,397 |
| Total Average Wage Including Health Benefits | $57,781 | $50,515 | $61,100 | $63,139 | $65,053 | $66,968 |
| Projected County Average Wage | $44,468 | $44,772 | $46,115 | $47,879 | $48,904 | $50,391 |

<table>
<thead>
<tr>
<th>Min. county wage requirement</th>
<th>125%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Wages Excluding Benefits as a % of the Projected County Average Wage</td>
<td>100%</td>
</tr>
<tr>
<td>Company Wages Including Benefits as a % of the Projected County Average Wage</td>
<td>122%</td>
</tr>
</tbody>
</table>

* Urban Counties (Weber, Davis, Salt Lake and Utah) must be at least 125% of the Projected County Average Wage including Health Benefits each year.

Rural Counties must be at least 100% of the Projected County Average Wage including Health Benefits each year.

3 Only one rural project out of 127 companies/144 approved projects projected wages below 100% of the rural county average without the inclusion of the employer paid health benefits. This project was supported with a significant local incentive and is located in a county that continues to struggle with economic growth.
As these tables demonstrate, the projected wages exceeded 100% of the county average without benefits. By GOED’s definition 100% “compares favorably”. While the projections were at 100% or more of the county average, Company G’s actual performance far exceeded the county average, paying on average $119,000.

Company G Exceeds Wage Projection by $61,000 in 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>County Average Wage</th>
<th>Average Wage Requirement</th>
<th>2012 ACTUAL Average Wage (w/o benefits)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company G</td>
<td>$43,457</td>
<td>$54,321</td>
<td>$119,532</td>
</tr>
</tbody>
</table>

To date, Company H has not applied for or received a tax credit.

Recommendation 2: We recommend that whenever the Governor’s Office of Economic Development chooses to use additional criteria in assessing company performance, it use equivalent metrics to assess the company’s compensation with average county compensation.

GOED Response: While GOED again recognizes that a total compensation comparison is not strictly the same as a wage-to-wage comparison, there is value in calculating benefits packages, especially so long as the underlying wage compares favorably to the county average wage. As stated previously, the State of Utah acknowledges the value of total compensation, and when GRAMA requested to produce compensation information, reports wages including the value of benefits packages.

Further, as mentioned previously in Finding 5, Recommendation 1, this practice was put into place to respond to the very real and challenging economic climate of the time, and GOED will consider modifying it if economic conditions continue to improve or if changes to health care law obviate this need.

Finding 6: Insufficient Statute, Rules, Policy Threaten the Integrity of the Corporate Incentives Process

GOED Response: GOED takes exception to OSA’s inclusion of “insufficient statute” as a finding. Only the Legislature can draft and pass statute. As recommended by OSA, GOED is in the process of revising its Administrative Rules and formalizing practices through written policies and procedures, but setting policy through statute is solely within the purview of the Legislative Branch, not the Executive Branch and is therefore outside of GOED’s control.
**Recommendation 1:** We recommend that the Legislature clearly define key terms and concepts that influence the amount of corporate incentives given to companies, including:

a. High paying jobs  
b. New incremental job growth  
c. Competition with other states for company relocation  
d. Appropriate length and amount of rebate rates  
e. Urban versus rural county designation  
f. Significant purchases from Utah vendors

GOED Response: The Legislature has already defined a, b, and f in Statute, see Utah Code Ann. §63M-1-2403. GOED is in the process of rulemaking to define c, d, and e, which will allow public comment on those important concepts.

**Recommendation 2:** We recommend that the Governor’s Office of Economic Development develop and follow written policies and procedures that establish minimum performance standards for companies applying for and receiving corporate incentives.

GOED Response: As stated previously in response to other similar recommendations, GOED appreciates the recommendation and is in the process of formalizing policies and procedures that it had been using internally by practice.

**Recommendation 3:** We recommend that the Legislature specify the length of time the Governor’s Office of Economic Development should be allowed to incent a “new incremental” job.

GOED Response: This recommendation misunderstands the distinction between a per jobs incentive (which typically only classifies a new job as “new” for a specified time period) and a tax increment financing program, which by its nature considers a “new” job to be one that is incremental above the baseline, even if the job is the same, year after year. See Utah Code Ann. §63M-1-2403.

The example used by OSA of Company I demonstrates why GOED’s more flexible tax increment financing program works better than a “per jobs incentive” to compete in the business environment GOED must navigate on a daily basis. Company I was an extremely competitive incentive process, and although the company did not project hiring after five years, GOED felt it was in the best interest of the taxpayers to extend the term to persuade Company I to commit to moving its operations to the state, as opposed to taking all of its operation and revenue elsewhere.

Figure 6.3 of OSA’s Report is not representative of GOED’s current practice, which requires an incented company to contractually commit to creating at least 50% of their projected jobs year over year to qualify for an annual incentive. The projections portrayed in Figure 6.3 reflect the projections that were used in six of GOED’s contracts from 2008-2010 (three of which have since undergone amendments that changed their requirement to GOED’s current standard). Since 2011 GOED has followed the aforementioned policy that requires companies to hire at least 50% of their projected FTEs to qualify for a revenue based incentive. GOED requires 50% of projected hires to allow for companies to be optimistic in their projections, while at the same time acknowledging that projections are simply a forecast and that businesses change over time in response to a number of market and economic factors.

In any event, incented companies are motivated to meet and exceed their job projections, as a significant portion of the incentive value is in the wage withholding taxes paid by their employees. If a
company only hires 50% of its projected hires, the actual incentive awarded is correspondingly calculated and reduced.

It serves to note that GOED’s contracts have improved over time, where the current practice requires more job creation than the previous practice.

**Recommendation 4:** We recommend that the Legislature periodically determine when the current allowance of an incentive of up to 30 percent of new incremental revenue for 20 years is appropriate to accomplish the mission of economic development.

**GOED Response:** Since the beginning of the program, GOED has only applied the maximum percentage rate and term for six companies. GOED’s practice is to reserve the maximum term and percentage for projects that include relocation of a headquarters location, significant capital investment, significant job number projections with high associated wages, strong local support and an ability for the new commercial project to complement an existing strategic cluster or attract additional non-incented companies into the state. GOED has been very judicious in granting maximum incentives. Over the life of the program, the average rebate is 3.8% and the average term is 11 years. The chart below shows that GOED has used the discretion from the legislature very conservatively.

<table>
<thead>
<tr>
<th>Total Number of Companies Approved for Incentives to Date</th>
<th>127</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Companies Approved for 20 Year 30% Incentives</td>
<td>6</td>
</tr>
<tr>
<td>% of Companies Approved for 20 Year 30% Incentives</td>
<td>4.7%</td>
</tr>
</tbody>
</table>

**Recommendation 5:** We recommend that the Governor’s Office of Economic Development ensure that contracts comply with statute and accomplish the intent of the corporate incentives program.

**GOED Response:** Pursuant to UCA §63M-1-2404(3) GOED may enter into agreements with a recipient of an EDTIF. All agreements must be entered into with complete adherence to state and federal laws and regulations. Since the inception of the program, all agreements have been drafted to reflect total adherence to the laws and regulations governing it or such agreements have been amended if any provision is found to be to the contrary. GOED, through the assistance of OSA, has identified two early contracts that contained statutory errors. Both contracts are being amended to correct the error. As shown below, however, OSA misstates the existence of two contractual provisions leading to an incorrect assertion that the agreements violate statute.

**A) OSA misstates the law and/or contractual provisions leading to an incorrect assertion that the agreements entered into violate the statute.**

First, OSA misstates the existence of two contractual provisions leading to an incorrect conclusion that the agreements have been written contrary to statute. The first misstatement comes from OSA’s assertion that the agreements allow for jobs that pay below the average county wage to count toward a company’s overall eligibility for the tax credit. This is a misstatement that leads to an incorrect finding and recommendation for two reasons: 1) the statute has no wage requirement for a new commercial project to be eligible for a tax credit; and 2) the statute does not require a job be paid above the county average wage. The eligibility requirements such as the wage requirement are self-imposed by GOED. These requirements are currently outlined in each agreement and are included in GOED’s current re-draft of its Administrative Rule for the EDTIF program.
1) The statute has no wage requirement for a new commercial project to be eligible for a tax credit.

The statute governing the EDTIF program remains silent on a definition of “wages” and does not provide wage criterion for eligibility in the program. See Utah Code Ann. §63M-1-2401 et. seq. The statute does require that all new commercial projects create “new incremental jobs,” which is defined separately from “high paying jobs.” However, the definition of “new incremental jobs” does not mention “wages” as any aspect of its definition nor does this definition offer what “wages” comprise of; it is, however, a requirement for eligibility.

OSA states in its Audit Report that agreements do not conform to statute because the agreements allow for “incenting jobs that pay below the average county wage.” This is a misstatement of the law. As demonstrated above, the statute does not provide any wage criteria for program eligibility. OSA has incorrectly relied upon the definition of a “high paying job” to support the assertion that the statute requires wages above the county average wage be created for program eligibility. However the statute does not require “high paying jobs” to be created in order to be eligible. The statute only requires “new incremental jobs” be created in order to maintain program eligibility. The “new incremental jobs” are not required to meet any wage criteria or threshold in order to qualify for program eligibility. Therefore, OSA’s reliance upon “high paying jobs” to support the assertion that the statute requires wages of any kind for eligibility is incorrect, and thus any reference to wage criteria in the agreements regardless of threshold amount conforms to the statute because wages of any kind are not a requirement for program eligibility.

2) The statute does not require a job be paid above the county average wage. The eligibility requirements, such as the wage requirement, are self-imposed by GOED, which is working under granted statutory authority.

The statute governing the EDTIF program remains silent on a definition of “wages” and does not provide that wages be a criterion for eligibility in the program. See Utah Code Ann. §63M-1-2401 et. seq. Additionally, the statute does not require that any wage be paid above the county average wage or any threshold. GOED has utilized this statutory discretion to further define “wage” and expound upon when a “wage” is deemed to “compare favorably.”

Moreover, the statute gives GOED the discretion to make incentives that are the most “effective incentive for the new commercial project” and establish rules outlining “the conditions that a business entity or local government entity shall meet to qualify for a tax credit.” See Utah Code Ann. §63M-1-2404(2)&(3). Therefore, although no wage criteria or threshold are required in the statute, GOED, via statutorily granted authority, can and has created a self-imposed regulation of a particular wage criteria. This wage requirement is provided for in each agreement and the threshold is designed to accomplish the most “effective incentive for the new commercial project” and the state.

The second misstatement made by OSA is the assertion that agreements contain language prohibiting the auditor from accessing contracts.

GOED, in conducting its statutory mandate to create the most “effective incentive,” does perform a great deal of due diligence on each potential new commercial project. This due diligence requires the sharing of sensitive financial information of the prospective project. GOED has engaged in the customary practice of entering into a non-disclosure agreement (NDA) with prospective projects in order to adequately perform the necessary due diligence while protecting the sensitive financial information of the prospective project. The NDAs contain a clause that states:
“In the event GOED is required, with respect to any judicial, governmental or administrative proceeding, to disclose any Confidential Material, GOED agrees to provide Applicant with prompt notice of such request prior to such disclosure, so that an appropriate protective order or waiver of compliance with the provisions of this agreement can be sought.”

In adhering to this provision of the NDAs, GOED requested a two week period to notify all projects that signed an NDA of the OSA’s performance before releasing company specific documentation to OSA. OSA kindly obliged the request and paused the audit for two weeks while GOED notified all NDA signees of the pending audit. The above provision does not prohibit the auditor’s access to any material nor does it expressly or impliedly usurp the law. The provision merely states notice will be given before disclosure occurs. OSA admits that full access was granted and did not find any language in any agreement that expressly or impliedly states access to an auditor is to be prohibited.

B) GOED, through the assistance of OSA, has identified two early agreements that contained an error against statute. Both agreements are being amended to correct the error that was identified and no inappropriate payments or awards have resulted from the error nor does OSA suggest such.

Finding 7: Limited Oversight Impairs GOED’s Accountability

GOED Response: GOED respectfully disagrees with the finding that there is “limited oversight” that impairs GOED’s accountability because there are several levels of oversight during each stage of the incentive process.

Prior to offering any EDTIF incentive, GOED performs an extensive application review.

First, all applications are vetted by GOED staff to ensure the minimum criteria are met.

Second, GOED staff recommends an incentive amount and term to a non-quorum sub-committee of the GOED Board (the Incentives Committee) for additional review and diligence. Once the Incentives Committee has a sufficient level of comfort with a proposed new commercial project, the Incentives Committee makes an incentive recommendation to the full GOED Board for additional discussion and final recommendation to the Executive Director.

Third, all incentive offers are deliberated by the full GOED Board in an open and public meeting. The GOED Board is comprised of business and community leaders appointed by the Governor and approved by the Utah State Senate.

Fourth, following a recommendation by the GOED Board on an incentive, the Executive Director may authorize the Office to enter into an Incentive Agreement with a company for a new commercial project. A contract is then drafted to include all of the terms and criteria mentioned in Finding 1.

Within 24 hours, all incentive offers are made available on the GOED website and an aggregate report is provided to the Utah State Legislature annually.

The Legislature created the GOED Board and Executive Director relationship so the two could serve as a natural check on one another and there has never been an instance where the Executive Director has awarded an EDTIF that differed from the Board’s recommendation.
*EDTIF Process includes an application and contract phase that can take multiple years to complete. Once completed, annual reporting is required until the termination of the contract.

GOED annually reports to the Legislature on all incentives offered and the amount of tax credits issued. Further, each year GOED reports all aggregate outstanding commitment liability on the Combined Annual Financial Report (CAFR), which amounts are reviewed by OSA. GOED also provides a monthly report on incentives offered throughout the year to its Board in its open meetings and makes running information related to incentives offered available on its public website.

Further, to the extent that any incorrect tax credit is identified either through internal or external review, all EDTIF contracts are drafted to provide a recapture provision that survives the incentive term. GOED built this recapture provision into its contracts to protect Utah taxpayers.

**Recommendation 1:** We recommend that the Governor’s Office of Economic Development justify each corporate incentive award to demonstrate that the award terms maximize the benefit to the state and its taxpayers.

GOED Response: As indicated above, all incentive applications go through a multi-level review process to ensure that any corporate incentive award is in the best interest of the State and its taxpayers.

The OSA’s assertion that Company L had its incentive length doubled without request lacks full context. Five years after receiving its original incentive, Company L applied for both an extension of its original incentive and an additional incentive for a new commercial project that included significant new capital investment. The OSA’s report does not consider that Company L’s original incentive extension became part of a larger transaction that included both an extension of the original term and an additional incentive for a new commercial project.
Recommendation 2: We recommend that the Governor’s Office of Economic Development require companies to submit options presented by other states or countries prior to being awarded to receive a corporate incentive award.

GOED Response: Although GOED understand OSA’s desire to require companies to submit other states’ options, it would caution against the unintended consequences in pursuing this course of action, which may result in Utah companies leaving the State and Utah incentive offers being leveraged by out-of-state companies. GOED currently requires that a project be in competition with other states or countries. Companies satisfy this criterion by certifying competition under penalty of law. Companies are often reluctant to share detailed offers from other states, as they are often issued confidentially until formalized to protect a company’s proprietary expansion plans.

Indeed, GOED would prefer that companies applying for incentives in Utah and elsewhere refrain from using a Utah incentive offer as leverage in negotiating with another state. After many years of analysis and consideration of its obligations to the State and taxpayers, GOED believes that its front-end analysis of the company, combined with the company’s certification of competition, strikes the best balance between ensuring a viable incentive and mitigating the risk of a non-competitive project.

GOED is also cognizant of local companies that are expanding and it has been the practice to incent competitive projects where the growth may occur outside the state. It could not be the Legislature’s intent or in the best interest of the taxpayers to have home-grown companies shopping themselves to other states if Utah can provide a financial incentive for them to grow here.

GOED prides itself on operating in good faith with companies and does not want to unintentionally incite bidding wars as a result of requiring a company to shop for offers.

Recommendation 3: We recommend that the Governor’s Office of Economic Development require companies to certify that they would not have relocated to or expanded in Utah without the incentive.

GOED Response: This was recommended by OSA during the audit process and it has been implemented in all EDTIF contracts since that date. GOED thanks OSA for the suggestion that has now been in place since April.

Recommendation 4: We recommend that the Legislature consider requiring a thorough independent audit of the corporate incentives at least every third year.

GOED Response: Two years ago, GOED worked with the Sutherland Institute and supported H.B. 380, which was passed by the Legislature to improve GOED’s transparency. This legislation requires an audit every five years. GOED complied with this requirement in the first year that the bill was enacted and contracted with Haynie and Company to perform an audit. Further, GOED engaged Tanner and Company to perform a data process and validation this summer which resulted in benign findings. The results of that review will be made public by the time this Audit Report is published. GOED welcomes audits that help improve transparency and program efficiency and effectiveness.

Recommendation 5: We recommend that the Legislature consider requiring an annual independent review of incentive performance statistics prior to the Legislative General Session.

GOED Response: Again, GOED welcomes reviews that will help improve transparency and program efficiency and effectiveness.
Finding 8: GOED Reported Misleading Wages of Projected Jobs

GOED Response: This finding largely relates back to the health benefit discussion, which has been reviewed in other Findings and recommendations.

To the extent that OSA asserts that GOED’s press releases intentionally mislead the public, GOED takes exception to this characterization. Press releases must, by necessity, compress the details of a complex business and tax contract into easily understood information for public consumption. In any case, GOED responded to OSA’s concerns about the press releases and has already changed the press releases to address OSA’s issues. GOED thanks OSA for the suggestion that has been in place since June.

Recommendation 1: We recommend that the Governor’s Office of Economic Development accurately report job creation wages in their communication with stakeholders and the public.

GOED Response: As stated above, during the course of this audit, OSA made suggestions to improve our press releases. Those changes were made, and OSA acknowledged that the changes satisfied their concerns in June 2014.

Recommendation 2: We recommend that the Governor’s Office of Economic Development exclude the value of company-paid benefits in wages when reporting job creation.

GOED Response: As previously mentioned in our response to Finding 5, GOED feels that it is appropriate to consider company contributed benefits as part of an overall compensation package given to employees, so long as that is made clear in the text of any release or report. Even the examples cited by the Audit Report clearly indicate that the wage projections include company contributed health benefits.

Finding 9: EDTIF Commitment Will Likely Double by 2024

GOED Response: Regardless of what the 2024 commitment by the state may be, the statute and mechanics of the program ensure that the benefit by way of increased revenue to the state will always be at least three times what the liability is. The post-performance nature of the program guarantees that the state does not rebate taxpayer money until the tax increment is generated. All commitments of the state should be compared with corresponding new state revenue that such a commitment represents. The green shaded area in the graph below represents benefit to the state and would represent just over $5,000,000,000 of incremental new state tax revenue if OSA’s projections are accurate.
Earlier this year, GOED engaged Haynie and Company (a certified accounting firm) to conduct an audit to comply with the requirements mentioned in HB 380, which explicitly requires a cost and benefit analysis. The Haynie audit calculated a benefit to the state of $3.19 to date for every $1 paid out in incentives, and that number will only grow as companies continue to invest in Utah over the life of their incentive.

Recommendation 1: We recommend that the Governor’s Office of Economic Development annually provide detailed information to stakeholders regarding:

a. The Economic Development Tax Increment Financing liability
b. Verifiable jobs created
c. Detailed wages of incented jobs
d. Actual corporate incentives awarded

GOED Response: The recommended information is all currently provided to the public in GOED’s Annual Report that is published each October, with the exception of the detailed wages. OSA also works with GOED annually to verify the EDTIF commitments and incentives awards published in the State of Utah Comprehensive Annual Financial Report (CAFR) Notes section C each year. OSA has never before expressed concern with commitment balances and incentive award amounts issued each fiscal period as published in the CAFR. A liability does incur when the tax credit is issued.

If the Legislature feels that reporting wage information would be helpful, GOED will provide that information in the aggregate as it does with all confidential information, or any other format the Legislature deems useful via the reporting mandates in statute.

Recommendation 2: We recommend the Governor’s Office of Economic Development establish a reasonable methodology to evaluate whether a company would expand or relocate to Utah in the absence of an EDTIF incentive during the pre-incentive evaluation process.
GOED Response: Please see our response to Finding 7, Recommendations 3 and 5 which address our existing methodology that occurs throughout our multi-layered review process on the front end, and through a certification by a company executive that the new commercial project was competitive.

GOED disagrees that there is not currently a reasonable methodology to evaluate a company’s expansion plans. GOED develops partnerships with companies that are considering expansion projects, many of which initially arise out of a competitive Request for Information process or that come to GOED’s attention through national site selectors and tax consultants. The evaluation process that has been used to date has been reasonable and effective. Several company decision-makers have expressed in public settings that they would not have expanded in Utah were it not for the incentives program.

GOED also requires that an executive from the company seeking an incentive attest to the fact that their expansion was competitive and that they would not have come to Utah without the incentives offered.

**Recommendation 3: We recommend that the Legislature evaluate the long-term fiscal commitment of the state’s corporate incentives program to ensure that the financial commitment provides the desired cost-benefit tradeoff for the state.**

GOED Response: This recommendation is addressed in current statute (H.B. 380), which requires an audit every five years and specifically requires GOED to report on “the estimated costs and economic benefits of the tax credit commitments that the office made.” Utah Code Ann. §63M-1-2406(1)(d). As mentioned previously, the Haynie and Company audit demonstrated a $3.19 return to the state for each $1 spent. Further evidence of the program’s success is demonstrated by the new commercial projects throughout Utah that would not have located here were it not for the corporate incentives program.

**Finding 10: GOED Cannot Verify Employee Withholding Portion of EDTIF**

GOED Response: As indicated previously, the EDTIF is a tax increment financing mechanism that authorizes GOED to rebate on three forms of revenue generated by new commercial projects: corporate or franchise income tax, the state portion of sales tax, and employee withholding tax. The Legislature recognized that although withholding tax is paid by individual employees, were it not for the new commercial project locating in Utah the incremental revenue stream would not have been generated. It thus logically set up a process whereby GOED is allowed to rebate a portion of employee withholding tax. OSA takes issue with GOED rebating on the employee withholding tax, however this is expressly authorized via statute.

Recognizing that individuals often receive refunds on their individual income tax, GOED deducts the overall rebatable amount by 25% to account for any such individual’s refund. This conservative methodology and rebate amount was derived directly from information provided by the Utah State Tax Commission when the program was just beginning in 2006, again in 2008 and 2010. From The Utah State Tax Commission – Tax Collections report (TC-23) the amount of Individual Income Tax Refunds and Withholding Refunds are compared to the Tax Revenues from Individual Withholding.
As demonstrated by the chart below, the 25% refund rate is a conservative approach.

**Average Individual Withholding Refund**

![Graph showing Utah Tax Withholding Revenues vs Individual Income Tax Refunds with an average of 20.6%](image)

*Source: USTC Tax Collections Report of Gross Individual Withholds Versus Refunds*

**Recommendation 1:** We recommend that the Legislature consider if the Governor’s Office of Economic Development should continue to have the authority to award employee-paid income taxes to incented companies.

GOED Response: Please see our introductory comments to this finding. This recommendation to the Legislature is contrary to existing law and misunderstands the tax increment nature of the program. The Legislature recognized that although withholding tax is paid by individual employees, the credit goes to the project employer, without whom the incremental revenue stream never would have been generated.

**Recommendation 2:** We recommend that the Governor’s Office of Economic Development provide annual reports to the Legislature regarding the sources and composition of corporate tax incentives.

GOED Response: Upon request from the Legislature, GOED will provide such source and composition.

The following chart demonstrates the actual breakout between the corporate income taxes, individual withholding taxes (show net of the 25% rebate) and the sales taxes rebated to EDTIF recipients. This chart is inclusive of all incentives awarded from calendar year 2006 through calendar year 2012.
For convenience, GOED also provides an analysis that demonstrates how the revenue generated by the EDTIF program was distributed into the various state funds in the table below. The green line below represents incentives paid out, which is a fraction of what is added to the state Education Fund (blue column) and General Fund (red column) by the generated revenue.

**EDTIF Contribution to Education (Blue) and General (Red) Funds**
Conclusion

Thank you again for your analysis. GOED appreciates this Report’s identification of certain areas where it can improve, including through adopting Policies, Procedures and updated Administrative Rules, which it is in the process of revising.

Although some valuable suggestions have been provided, GOED is concerned that the Audit Report:

1. Misunderstands the difference between a tax increment financing economic development tool and a per job incentive;
2. Repeats findings, fails to note that the findings related to a negligible percentage of incentives, fails to note mitigating improvements; and
3. Advocates against the program in its continued questioning of legislation and failure to recognize the revenues in addition to the commitments.

GOED is willing to work with OSA cooperatively to improve the program, to increase confidence in its metrics and measurements and to assure both OSA and the public that it is a good steward of the public’s funds and the public’s trust.
Appendix A
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Governor's Office of Economic Development
60 East South Temple, 3rd Floor
Salt Lake City, UT 84111

We have performed the procedures enumerated below, which were agreed to by Governor's Office of Economic Development (the "GOED"), solely to assist you with respect to the procedures related to the tax credits (and EDTIF rebates) allowed under Section 63M-1-2405 of the GOED for the years ending July 2006 through July 2013. The Governor's Office of Economic Development is responsible for the accounting records and schedules. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1) Procedure:
   On a sample basis, we recalculated the cost of the tax credits (and EDTIF rebates) that are reported on the summary incentives schedules. For purposes of our procedures any difference under $1.00 was not considered a finding.

   Findings:
   No exceptions were found as a result of applying the procedure.

2) Procedure:
   We evaluated the purposes and effectiveness of the tax credits, by performing the following:
   1. We recalculated on a sample basis the difference between the cost of the tax credits with the benefits received, which is "new state tax revenue."
   2. We summarized for the fiscal year 2006 to 2013, the number of instances where the costs of the tax credits exceed the benefits received.

   Findings:
   In fiscal year 2006, the cost of the tax credits exceeded the benefits received. This was due to 2006 being the start up year for the EDTIF rebate program and only one incentive was paid but 13 were granted. Because this was the initial year the operational costs (program overhead) was greater than the EDTIF new state revenues.
3) **Procedure:**

We recalculated the extent to which the state has benefited from the tax credits.

**Findings:**

No exceptions were found as a result of applying the procedure, the average new state revenue earned per dollar spent was calculated to be $3.19 for the time period covered by our procedures (July 2006 through July 2013).

We found that the state will benefit from these programs beyond the period covered by our report, we did not evaluate the future benefit the state will receive from these programs.

We were not engaged to, and did not, conduct an audit, as defined by generally accepted auditing standards, the objective of which would be the expression of an opinion on the accounting records and financial statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Governor's Office of Economic Development and those familiar with procedures performed and is not intended to be and should not be used by anyone other than those specified parties.

Haynie and Company
Salt Lake City, Utah
January 31, 2014