

New Mexico
Business
Weekly
Albuquerque, N
M
Circ. 4505
From Page:
1
6/12/2009
368863



67-04-122-214-323-82-327

What's the ROI?

Evaluations of state's incentives go MIA

BY DENNIS DOMRZALSKI | NMBW STAFF

Over the past 10 years, New Mexico state government has invested more than \$500 million in economic development incentives. The state spends between \$34 and \$42 million a year in tax incentives and tax credits alone.



Bradley

New studies, though, have found that the state has no real way of knowing whether or how well those incentives are working.

In other words, the state has no way tracking of its return on investment for those incentives.

"New Mexico is spending a tremendous amount of tax dollars on these incentives, and yet we don't know if they produce positive benefits," said Gerry Bradley, research director at the Albuquerque non-profit, New Mexico Voices for Children.

Voices recently published a report that looked

SEE INCENTIVES 22





New Mexico
 Business
 Weekly
 Albuquerque, N
 M
 Circ. 4505
 From Page:
 22
 6/12/2009
 368863



INCENTIVES: *An LFC study concluded programs were fragmented and duplicated, with outcomes lacking*

FROM PAGE 1

at four types of business tax breaks: conservation and historic preservation, general industry incentives, specific industry incentives and employment enhancement tax credits. In fiscal years 2006 and 2007, the state spent \$75.8 million on the credits. But, again, there is no way to determine how much or how little they have helped New Mexico's economy.

"There is no procedure for doing a cost-benefit analysis of the economic development incentives," Bradley said. "Occasionally, the state Legislature will request a study of the incentives, but that's hit or miss.

"We need to know the costs and the benefits so we can decide whether they are worth it," Bradley said.

A recent survey by the state Legislative Finance Committee came to a similar conclusion about the dozens of economic development incentives.

"Many agencies and programs play a part, significant funding is involved, programs appear to be fragmented or duplicated, and credible performance outcomes are lacking," said the May 12 survey.

It also criticized the state for lacking a statewide economic development plan.

"Program fragmentation and duplication or overlap can waste administrative

resources and increase the chance of gaps in services, thus creating an environment in which the participants are not served as efficiently and effectively as possible," the survey added.

According to the LFC survey, the state's Job Training Incentive Program doled out \$22 million in grants in the past two fiscal years, which resulted in 4,800 workers being trained.

But, the survey added, "they cannot say how many jobs were created."

"The Taxation and Revenue Department reported that companies claimed \$110 million in incentive tax credits from FY02 to FY07, mostly for film productions and investments," the survey said. "The companies are not required to report on the number of jobs created."

Trying to determine how effective those incentives are will be costly and difficult – \$600,000 to \$750,000 – a year, said Jim Nunns, tax policy director for the Taxation and Revenue Department.

"Those would be the government's costs. In addition, there would be costs to the recipients of the incentives because there would be additional reporting requirements," Nunns added.

The difficulty would come in determining what to measure and what criteria to use. For example, two recent studies of the





New Mexico
 Business
 Weekly
 Albuquerque, N
 M
 Circ. 4505
 From Page:
 22
 6/12/2009
 368863



State incentives

Some of New Mexico's economic development incentives and the money spent

Cost to the state's general fund (In thousands of dollars)

| | FY06 | FY07 |
|---|----------|----------|
| Affordable Housing Tax Credit | \$27.20 | \$48.3 |
| Film Production Tax Credit | \$65.80 | \$72.30 |
| Film Tax Credit | \$10,808 | \$17,650 |
| National Lab/Small Business Partnership | \$1,454 | \$1,694 |
| Solar Market Development | \$340 | \$525 |
| High Wage Jobs Tax Credit | \$673 | \$1,330 |
| Job Mentorship Tax Credit | \$15.2 | \$10.3 |
| Rural Jobs Tax Credit | \$189 | \$113 |

Source: New Mexico Values for Children

state's film industry came to vastly different conclusions about their return on investment.

A study by Anthony Popp and James Peach at New Mexico State University's Arrowhead Center, said the film industry incentives returned 14.4 cents for every incentive dollar spent.

A second study, by Ernst and Young, said the return was \$1.50 for every \$1 of state tax credits spent.

"The problem is, in what context would

you want to evaluate them, and where would you stop?" Popp said. "It could take a couple of years to determine that.

"It would take more resources, at least to get started, and there are questions as to whether it would give us the information we need."

Despite the costs and time, the incentives should be looked at to determine their impact, said Paul Gessing, executive director of the Rio Grande Foundation, an Albuquerque free market think tank.

"Good government demands that any government policy be studied as much as possible to show whether it is effective," Gessing said. "This is a situation where money is being diverted from one group to another. Sometimes there is no tax increase or decrease. But you have special interests fighting with each other over a piece of the pie.

"Before policy makers do that, we should have an open and honest discussion about the drawbacks and benefits."

Toni Balzano, spokeswoman for the New Mexico Economic Development Department, said the incentives are working and are a big reason New Mexico's economy is better off than most other states in this recession.

dfdomrzalski@bizjournals.com | 348-8306