Best Practices in Carrying Out State Economic Development Efforts

A National State Auditors Association Best Practices Document

NSAA

Published by the
National State Auditors Association

For additional information, contact the National State Auditors Association, 2401 Regency Road, Suite 302, Lexington, KY 40503, (859) 276-1147, www.nasact.org.

Best Practices in Carrying Out State Economic Development Efforts

Purpose

The Performance Audit Committee of the National State Auditors Association developed this document as a tool for audit organizations and government agencies to use in identifying and evaluating best practices in carrying out state economic development efforts. Although it was intended to address many of the best practices that could apply in these situations, it should not be considered all-inclusive. Further, the practices listed here may not be applicable in all situations, and other practices may accomplish the same things. However, this document can be extremely helpful as a starting point for both agency managers and auditors in deciding what types of practices are more likely to result in an efficient, effective, and accountable economic development effort.

Background

State economic development programs can have a number of purposes. Some are geared toward "start-up" companies and may offer assistance in developing products, obtaining capital, or helping companies begin operations. Some are intended to attract businesses into the state, spur new business development, or help existing companies train workers, create or retain jobs, or increase sales. Some may focus on reducing a company's cost of doing business through direct cash payments or bond financing, assistance with relocation or expansion costs, and tax reductions, abatements, or credits. One agency seldom provides all these services, but it may offer several of them through different programs or divisions.

Having a well-designed economic development program greatly increases the likelihood that the intended outcomes of the program can be achieved. A well-designed program can also identify strategies that are ineffective, and consequently, provide decision-makers with information needed to make future funding decisions.

Planning

An economic development agency's general purpose may be established by law, but an agency may need to further define its purpose by determining such things as which services it will offer or how those services will be provided and coordinated. As part of a good planning process, the agency would be expected to:

1. If not already spelled out in law, identify what problem or need(s) the program is designed to address, and which activities or services the program will provide to address it. This part of the planning process may involve working with stakeholder groups to identify the economic development needs within the state or the community and to determine whether and how various activities or services will be coordinated with other economic development agencies and organizations.

   Examples of the types of needs to be addressed can include increasing wages, providing more private investment capital, addressing a stagnant or declining job market, improving *labor skills, and increasing growth in a particular sector, such as technology or biomedical.*

Examples of the types of services or activities can include <u>technical assistance</u> (such as writing business plans, providing individual counseling, or locating sources of financing) and <u>financial assistance</u> (such as making direct investments, or providing loans or grants for construction, equipment, or staff training).

2. Develop clear and measurable goals for the program and timelines for measuring how well they were achieved.

   Examples of goals can include increasing employment by a certain number of jobs, increasing wages by a certain amount, increasing new investments into a targeted area by a certain amount, reducing unemployment in a given area by a certain percentage, increasing exports of state products, retraining a certain number or percentage of workers, and generating a certain amount of tax revenues.

3. Identify what information the agency will need to collect before, during, and after assistance is provided in order to accurately monitor, track, and evaluate program performance. Develop applicable forms and procedures for collecting, analyzing, using, and reporting that information. Depending on the type of assistance being provided, such information may need to include agency accounting and staff time utilization information and/or information on service recipients.

   Examples can include ***pre-assistance and post-assistance*** *employment, salary, benefits, or skill levels; sales figures; capitalization; etc. Care will need to be taken to ensure that the number of new jobs created isn't inappropriately double-counted within or across economic development agencies or programs.*

4. Establish and prioritize eligibility criteria for those companies or individuals that might be interested in receiving the services the agency provides, and develop appropriate guidelines and forms for collecting application materials and reviewing and evaluating those who apply.

   Examples can include the likely potential for creating a substantial number of new jobs, the type of product or service a new company is trying to develop or bring to market, the likelihood a company would leave the area without this state-funded assistance, the level of commitment by company management, the number of employees a business has, its location, whether the company's needs cannot be met using other non-public resources, etc.

3. Establish clear guidelines or requirements regarding actual or perceived conflicts of interest for agency staff or for others who provide economic development services or funding on the agency's behalf. Those guidelines should specify which actions or relationships are allowed or prohibited, and any other steps that should be taken take to manage potential conflict-of-interest situations.

Examples of conflicts for the employee, the employee's spouse or other family member, or a contracted entity can include owning any portion of or receiving compensation from companies receiving assistance, using information obtained in the course of work to further personal financial interests, or serving in a management capacity for a company receiving assistance. Examples of actions an agency can take to manage those conflicts include reassigning staff and excluding staff or contractors from decision-making when they have conflicts.

6. Adopt rules, policies, procedures, and other guidance that clearly define all program goals, objectives, requirements, terminology, and processes.

Selecting Recipients and Providing Services

The economic development agency (or other entities acting on its behalf) should develop a systematic and equitable process for informing interested companies or individuals about the program's existence, selecting who receives the economic development assistance, and providing those services. As part of a good process, the agency would be expected to:

1. Develop procedures and/or marketing programs (depending on the nature of the program and the type of assistance being provided) for letting interested companies or individuals know about the goals of the program, the type of assistance that is available, what is required to get it, and what is expected in return.

2. Require interested individuals or companies to complete an application for assistance and provide all information or documentation needed to help the agency determine whether the applicant meets the eligibility requirements. (This step might not be applicable for agencies that provide services to walk-in clients.)

3. Take reasonable and consistent steps to ensure that individuals or companies applying for assistance meet the eligibility criteria and have a reasonable likelihood of achieving the expected results. Depending on the nature of the program, those steps can include comparing application materials to the established criteria, following up with applicants as needed, verifying the critical information provided, analyzing the applicant's financial condition or viability, and the like. Among other issues to be considered:

   a. If the assistance involves a financial investment, the agency may want to take additional steps—such as obtaining input from agency staff, conducting market research on the applicant, and seeking the opinions of independent professional reviewers.

   b. If the assistance involves a start-up or relatively new company, the agency may want to see the business plan and the financial data (such as tax returns) of business owners and guarantors.

4. Sign contracts or agreements with those applicants who are offered assistance and accept the terms. Such contracts or agreements generally would spell out such things as what

services these companies or individuals will receive, the information and reports they will need to provide and the agency's right to verify them, any potential conflicts of interest and what steps will be taken to manage or eliminate them, the results they are expected to achieve and the methods that will be used to measure them, the consequences for not achieving them (such as claw-back provisions), and any applicable legal requirements. How formal this is will depend on the type and level of service being provided. Among other issues to be considered:

a. If the agency provides loans, what steps if any should be taken to secure those loans?

   Examples can include personal guarantees from company officials or liens against buildings or equipment acquired with the loans and may vary depending on the size of the loan.

b. If the agency makes investments, the extent to which potential rewards should be linked to the risk the agency is taking on.

   Examples can include seeking a greater portion of royalties for start-up companies than for established companies.

c. If the agency provides <u>any</u> type of financial assistance, the need to periodically review and evaluate the company's financial condition.

   Examples can include the company's performance in key financial areas, such as current assets to current liabilities and long- and short-term debt ratios.

d. If the agency contracts with <u>another</u> entity to make loan or investment decisions or provide training or other assistance on its behalf, what requirements will be placed on that contracted entity?

   Examples can include limits to the activities the entity will be allowed to perform, conformity with agency conflict-of-interest policies, payment methods and schedules, performance standards and penalties for non-performance, incentives, provisions for inspection, and reporting requirements.

5. Provide services in a timely, informed, helpful, courteous, relevant, and accurate manner.

6. Maintain a record of all applications, supporting documents, agreements or contracts, and major ongoing compliance provisions, as well as the screening process followed, the award decisions made, the number of individuals or companies receiving assistance, the type and/or amount of assistance received, and the like.

Monitoring Performance

The economic development agency should develop and follow systematic, objective, and independent processes for determining whether service recipients are complying with all requirements to ensure that the program is being carried out as intended and to help ensure that tax dollars are being spent wisely and are achieving the desired results. As part of an effective monitoring process, the agency would be expected to:

1. Ensure that service recipients and contractors provide all required reports and information within the established time frames.

2. Review and verify the data submitted for accuracy and reliability, and document the verification work done and its results.

   Examples of items that could be reviewed include company payroll, sales increases, cost savings, capital investments, conflict of interest documentation, key financial performance data, and the current state of the company and its project. Examples of information from third parties that might be reviewed to corroborate the information reported include employment levels and wages reported to a state department of labor. Depending on the nature of the program, some verification work might also be performed through on-site reviews or independent (reviews or) audits.

3. Take additional steps to acquire information useful to management and policy-makers that is not included in the data previously collected, and document those steps.

   Examples can include reviewing financial performance results; using surveys to answer questions about impact and satisfaction, such as a company's satisfaction with employees who have completed a training program; verifying conflict of interest reports; and determining why some businesses have not used program services. Keep in mind that companies often have a vested interest in saying services were helpful.

4. For individual entities that received assistance, compare the results being reported with the requirements, agreements, or expectations established for them. For those entities reporting that they have achieved the desired results, critically assess whether the entity's actions actually caused the improvement, because other agencies, organizations, and miscellaneous factors also may play important roles.

5. Notify an entity when it is not in compliance or has not achieved the intended results, and take appropriate steps to ensure the entity understands what is expected and when. The agency also might provide additional assistance to help the entity meet these goals, when appropriate. As part of this process, the agency should also assess the likelihood that the entity will be able to meet the requirements, goals, and expectations spelled out for it in the future.

6. Take timely and appropriate actions against service recipients and contractors who fail to fulfill their contractual obligations. Among other things, these actions could include:

a. Changing the terms of the agreement or contract.

b. Withholding additional assistance until the entity has met certain requirements or achieved certain goals.

c. Recouping certain grants, loans, or investments that have been distributed, or requiring repayment for other services that were provided.

Management Analysis and Reporting

An economic development agency should establish a systematic process for analyzing program-related information, making appropriate adjustments to improve the effectiveness and efficiency of the program, and reporting relevant summary information to the public and policy-makers about the results of the economic development program. As part of this process, management would be expected to do the following types of things on a periodic basis:

1. Evaluate the extent to which program staff (or contractors acting on the agency's behalf) complied with agency policies and procedures, internal controls, and program requirements in carrying out their responsibilities. Such evaluations could cover the procedures followed in selecting and providing services to applicants, making investment decisions, and avoiding or managing conflict-of-interest situations.

2. Evaluate the reliability of the program data compiled and maintained by program staff (or contractors acting on the agency's behalf).

3. Evaluate how efficiently the agency is carrying out its responsibilities, including a review of any duplication or lack of coordination between economic development programs.

4. Evaluate and periodically report to the public and policy-makers on the agency's activities, the extent to which it has achieved its goals, and the results that were achieved. Among other things, such reports should:

   a. Acknowledge any data limitations and take them into account.

      Examples include clearly identifying the number of new jobs created (i.e., as "planned," "projected," or "actual," and not reporting results for an entire project if assistance was provided to only some part of it).

   b. Count as reportable only those businesses or clients that indicate a contribution to the outcomes achieved.

   c. Compare the amount the agency spends on economic development activities with the benefits attributable to those activities, when feasible.

5. Propose or adopt needed changes in laws, regulations, standards, policies, processes, etc., to help ensure that the economic development program is operating as intended and accomplishing its purpose.