



Indiana Economic Development Corporation Audit Committee Meeting January 7, 2011

Summary of Incentive Program Review

Prepared for IEDC leveraging sample data provided between October 22 – December 1, 2010

Topics

- Executive Summary
 - Approach
 - Key Considerations
- Overview of Competitive Job Creation Figures
- 2009 Jobs for Projects from 2005 – 2009
- Job Actualization Comparison
- Sample of Job Growth Trends 2006 - 2009

Executive Summary – Approach

- The Incentive Program Review consisted of the following primary activities:
 - A review of **legislative requirements** for EDGE, HBI, SEF and the Economic Incentives and Compliance Report (EICR)
 - A review of internal, IEDC **policies and procedures** for EDGE, HBI, SEF, monitoring/auditing recipient performance and clawbacks/recapture process
 - A **review and comparison of job projections** contained in Annual Reports and IEDC source documentation
- The following secondary activities were conducted, as needed, to support the two primary activities:
 - High-level review of **processes** leveraged in other states including: Kentucky, Illinois, Michigan, North Carolina, Ohio, and South Carolina
 - Confirmation of our understanding of the **business process** outlining the IEDC incentive program application, review, contract and monitoring processes
 - **Interviews** with current staff, IEDC Economic Policy Committee members and other state agency staff to review processes and procedures and provide recommendations for improvement
 - **Small sample review** of company annual certification data submitted by companies and certified by IEDC

Executive Summary – Key Considerations

- IEDC focuses on **creating the environment** for job creation and competing for primary employers of Logistics, Information Technology, Life Sciences, Advanced Manufacturing, Energy and Defense sectors
- IEDC has made and is in the process of making additional improvements to internal processes and procedures
 - As part of this review, **additional recommendations for process improvements** within IEDC include:
 - Finalize and leverage the written, internal policy and procedures manual
 - Clarify the job numbers used in IEDC reports (e.g., actual jobs versus projected jobs; certified numbers versus informal numbers; the point in time job numbers are gathered and reported)
- External communication is needed to clarify that **companies receive credits when actual job creation figures are provided** by the company and certified by the IEDC

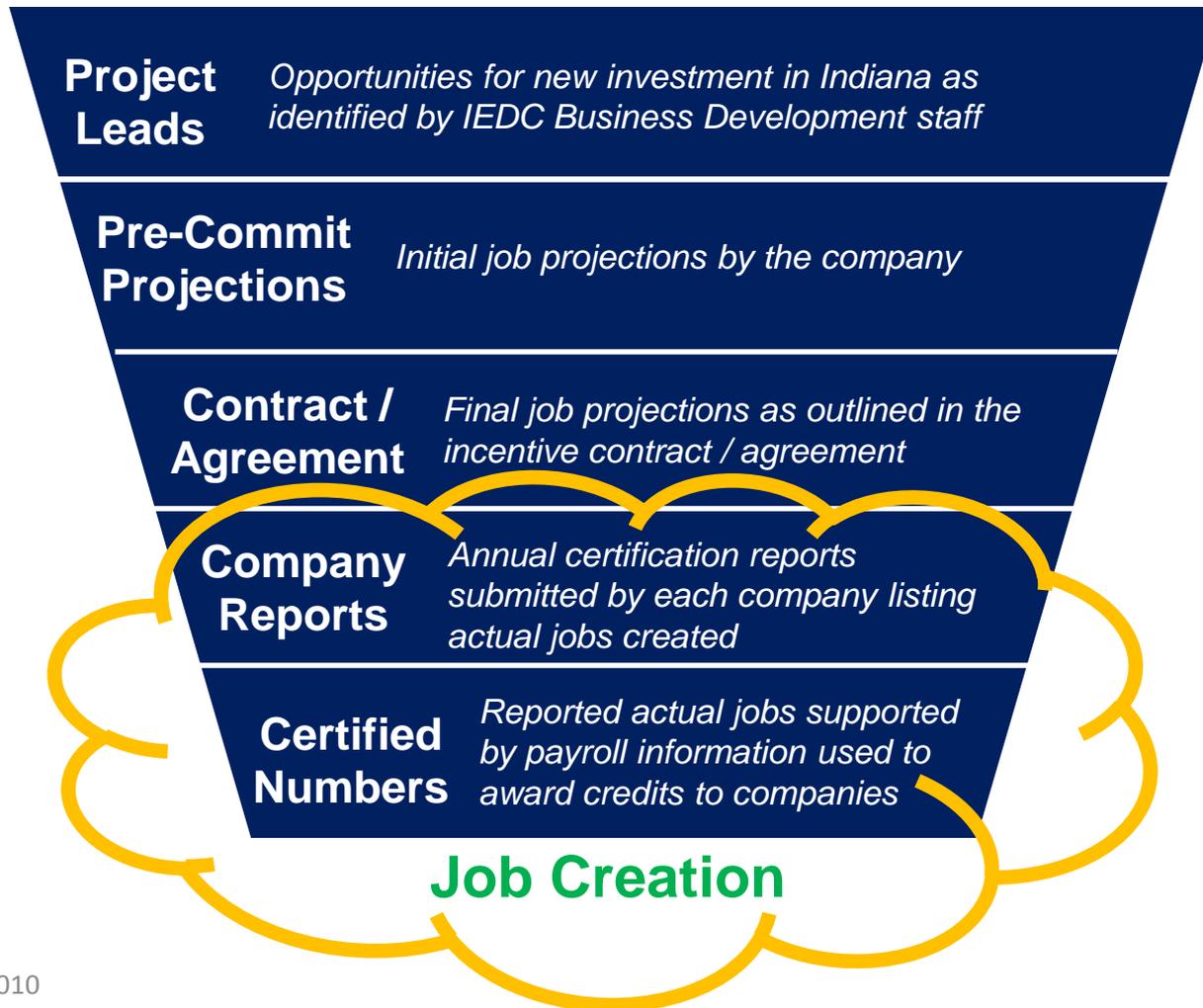
Executive Summary – Key Considerations (cont.)

- IEDC has developed **new processes to streamline** the auditing and monitoring of companies on an annual basis
 - We recommend IEDC finalize the documentation of these new processes and communicate the new processes as appropriate to internal and external stakeholders
- IEDC assesses the need to clawback or recapture funds for non-performance on an as-needed basis
 - We recommend IEDC **finalize documentation of the processes** used to assess companies for non-compliance or non-performance
- It became apparent during our review that concerns with job creation figures are the result of inconsistent use of terminology
 - We recommend that the IEDC **clarify terminology internally and externally** by developing a glossary of standard terms and definitions used by IEDC staff to evaluate and report job creation figures
- Based on our review of IEDC Annual Report data, there is **no evidence that IEDC has inflated job projection or project figures**

Executive Summary – Key Considerations (cont.)

- Data listed in IEDC's Annual Reports reflects job projections from pre-commit documentation for each project
 - We recommended and IEDC completed **updating the pre-commit letter of intent** to require companies to report actual job creation figures to IEDC until a formal contract / agreement is executed
- The IEDC Annual Report appears to be perceived as a record of interest; as such, IEDC may **optimize internal tracking** (in CRM) by tracking the year job projections are initially reported in annual reports
- The purpose of the IEDC Annual Report is to reflect a summary of job projections by companies for competitive projects in a given year
 - We recommend that IEDC **continue to reconcile prior year job projections (back to 2005) in aggregate and report adjustments** in IEDC Annual Reports
- When calculating IEDC Net New Jobs, we recommend IEDC use a **formula-based logic to determine net new jobs** for a given year
 - The logic should be applied in the following order: 1) Company-submitted / IEDC certified data; 2) Current year informal numbers if available; 3) Previous year informal numbers if available; 4) If none of those exist, zero should be used.

Overview of Competitive Job Creation Figures



2009 Jobs for Projects from 2005 – 2009

Accepted Year	Number of Competitive Projects in IEDC Annual Reports (All Statuses)	Expected 2009 Jobs for Competitive Projects (from Pre-Commit) for All Companies, All Statuses (Subset from Annual Report)	Number of Projects with Accepted Status	Expected 2009 Jobs (from Pre-Commit) with Accepted Status	IEDC Net New Jobs - Accepted Status Only (logic applied*)
2005	142	12,723	101	10,209	5,782
2006	186	16,268	134	12,492	9,639
2007	158	14,020	117	10,551	6,425
2008	151	8,983	112	7,025	8,333
2009	160	5,094	146	4,845	7,461
Total	797	57,088	610	45,122	37,640

* Logic applied to determine IEDC Net New Jobs: If available, used company-submitted / IEDC certified data first; then informal 2010 numbers if available; then informal 2009 numbers if available. If none of those exist, zero was used.

Note: The "IEDC Net New Jobs - Accepted Status Only" figures represent certified or informal job numbers as of 12/1/10.

Job Actualization Analysis Comparison – IEDC Numbers

Year of Transaction	Number of Projects	Total Expected Jobs by 2009 for Reporting Companies	Net New Jobs Reported in 2009	Percentage Realization for Reporting Companies
2005	99	10,017	5,885	59%
2006	127	12,114	9,972	82%
2007	116	10,485	6,381	61%
2008	111	6,834	8,524	125%
2009	144	4,758	7,695	162%
Total	597	44,208	38,457	87%

Note: This chart was developed by IEDC and presented during the December 2010 State Budget Committee meeting.

Job Actualization Analysis Comparison – Logic Applied

Accepted Year	Number of Projects	Expected 2009 Jobs for Reporting Companies (from Pre-Commit)	IEDC Net New Jobs (logic applied**)	Percentage Realization
2005	99	10,017	5,782	58%
2006	127	12,114	9,639	80%
2007	116	10,485	6,425	61%
2008	111	6,834	8,333	122%
2009	144	4,758	7,461	157%
Total	597*	44,208	37,640	85%

* Companies that were required, but did not report, are not included in the Number of Projects. The Number of Projects includes companies not required to report.

** Logic applied to determine IEDC Net New Jobs: If available, used company-submitted / IEDC certified data first; then informal 2010 numbers if available; then informal 2009 numbers if available. If none of those exist, zero was used.

Note: The “IEDC Net New Jobs - logic applied “ represent certified or informal job numbers as of 12/1/10.

Sample of Job Growth Trends 2006 - 2009

Job Growth Trend (Increase)	2006		2007		2008		2009	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Company A			184	232	569	670	0	643
Company B			60	64	0	73	0	79
Company C			29	121	60	156	90	281
Company D	8	37	0	52	0	61	0	63

Job Growth Trend (Slow Growth)	2006		2007		2008		2009	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Company E	30	17	68	26	125	35	150	41
Company F			13	12	44	39	157	64
Company G			21	4	28	9	46	14
Company H	88	67	157	78	230	131	0	162

Job Growth Trend (Decrease)	2006		2007		2008		2009	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
Company I	67	38	119	91	159	82	191	110
Company J	65	74	170	152	251	92	0	205
Company K	95	35	104	4	120	19	132	47
Company L	13	5	28	9	36	1	45	11

This chart represents fluctuations in job trends due to economic conditions.

Note: A zero represents the full employment year has passed. No new jobs were projected by the company after the full employment year. Blanks represent companies without contracted numbers for those years.