



Office of the Inspector General Commonwealth of Massachusetts

Response to Senate Post Audit & Oversight Committee Report on the Massachusetts Economic Development Incentive Programs, December 2002

Inspector General Gregory Sullivan strongly agrees with and echoes the findings of a Policy Brief released Wednesday by the Senate Post Audit and Oversight Committee identifying poor accountability in the Commonwealth's Economic Development Incentive Program (EDIP). The Inspector General believes the existing EDIP requires immediate reform and warns that any future state or local economic incentive programs need to include strict safeguards to ensure the protection of public funds.

The Inspector General has been investigating the Tax Increment Financing (TIF) portion of the EDIP for a number of months and plans to release a program analysis early next year. Taxpayer sponsored economic incentive programs have been problematic nationwide. The Inspector General has met with officials in Minnesota concerning TIF reform and has reviewed economic incentive programs nationwide. Massachusetts should provide an example for the rest of the nation by adding much needed reform to the program. The Inspector General calls upon the elected officials in Massachusetts to immediately address the following issues:

- A mandatory system should be implemented to verify business compliance with incentive agreements. No such system currently exists. On the eve of potential cuts in local aid and dwindling revenues at both the state and local levels, businesses should be held accountable for promises made in return for large tax breaks.
- Standards need to be developed and used to ensure that incentives are given only to projects with a bona-fide need.
- A system should be implemented that protects the interests of the municipalities granting the incentives. Currently there is little to protect the interests of local taxpayers.
- A mechanism should be established to prevent incentive use for intra-state or pirated business moves. Currently, businesses reap huge benefits by moving from one municipality to another without providing a net benefit to the Commonwealth.

In addition, the Inspector General supports a new bill filed by Senator Marion Walsh and Representative Christopher Fallon that would increase the quality and timeliness of reporting by businesses that benefit from the tax incentives offered through the EDIP. The Inspector General's analysis will contain specific technical recommendations that will act as complimentary amendments to this bill.

The Inspector General's preliminary review of the EDIP supports the Senate Post Audit and Oversight Committee's findings that the EDIP suffers from insufficient reporting, a lack of a comprehensive program evaluation, and the lack of data to support the programs reported success. The Inspector General concurs with the Committee's recommendations and strongly

suggests that immediate action be taken to ensure program integrity and to protect the interests of the taxpayers.

The Inspector General welcomes the opportunity to work with the Legislature, state economic development agencies and local officials to ensure that the EDIP is protected against fraud, waste, and abuse and that the taxpayers of the Commonwealth receive the best value possible from public investment in economic development.