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CLARK COUNTY
WASHINGTON

AUDITOR
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Audit of Clark County's Job Creation – Fee Waiver Program

Clark County Auditor's Office
Report #14-02

November 25, 2014

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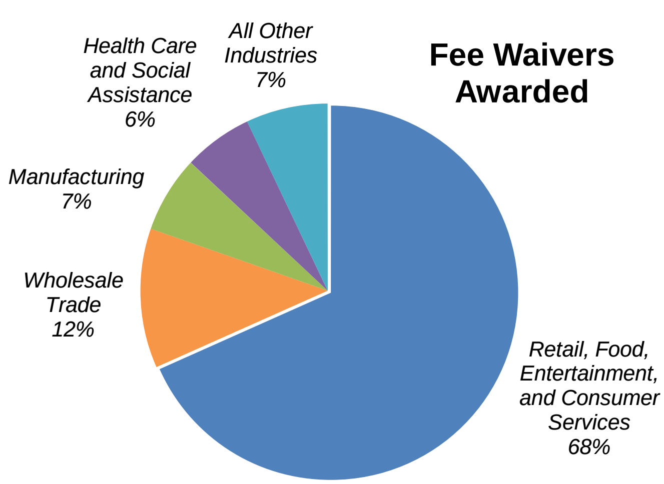
Executive Summary

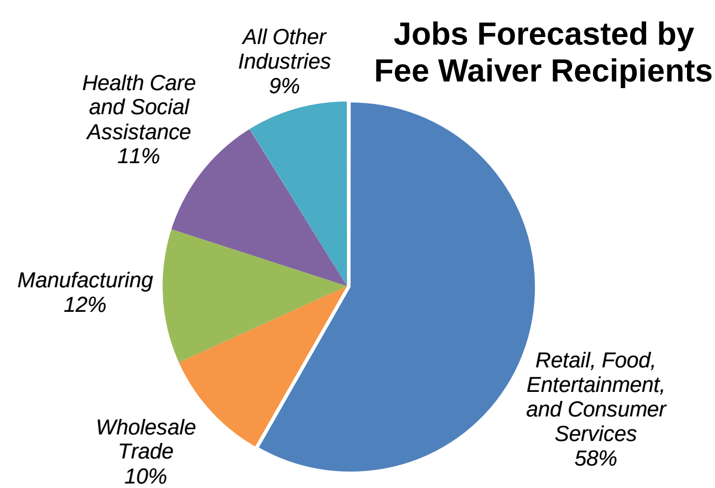
The Clark County Auditor's Office conducted an audit of the Job Creation – Fee Waiver Program (Program) in response to interest expressed by the Board of County Commissioners (BOCC). The Program is administered by the Department of Community Development (DCD). The purpose of the Program is to spur development, promote job creation, provide local job opportunities for residents who currently commute to Oregon, and market Clark County as a business friendly location. To accomplish this, the County waives permit application and traffic impact fees (TIF) for non-residential construction. Application fees are used to cover the costs associated with permitting. Similarly, TIF fees pay for the infrastructure improvements necessary to support residential and commercial growth. Although TIF fees represent a small portion of funding for these improvements, as private dollars they enhance the County's ability to obtain related federal funding. Approximately $7.8 million in fee waivers, ($1.4 million in application fees and $6.4 million in TIF fees), were awarded to 153 projects from June 2013 through August 2014.

To assess the Program, we developed a logic model, analyzed Program data, investigated best practices, researched audits and national studies of economic development incentive programs, reviewed polling results of past fee waiver recipients, worked with regional economists, and interviewed key County personnel.

Conclusions

Data from the state confirms that some jobs have been created by fee waiver recipients, including a small number in industries which pay higher wages and are more likely to promote economic growth. However, the Program as it is currently designed is not cost effective. Minimal eligibility requirements for applicants and unclear outcomes for the Program allowed approximately $4.6 to $6.9 million in fee waivers to be awarded to projects that, according to national studies and past fee waiver recipients would have occurred anyway. At best, the Program may have accelerated the timing of these projects. Further, the majority of jobs created and forecast by fee waiver recipients are in the retail, food, and consumer service industries. Most Clark County residents who currently commute to Oregon work in other industries that pay higher wages. Therefore, these retail and service jobs are unlikely to measurably reduce the number of out-of-county commuters.





In addition, the funding mechanism for the Program may not be sustainable. The current costs of the Program are supported by fees from residential, government, and other construction projects not eligible for waivers. During the second quarter of 2014, the fees collected were not sufficient to cover the cost of permitting operations, resulting in a $350,000 decline in DCD's reserve funds. At this rate, DCD management projects they will need General Fund support to continue operations during the next biennial budget. In addition, the loss of TIF dollars may result in delays to key infrastructure projects.

We recommend the BOCC consider eliminating the Program or work with DCD to make substantial changes to align it with best practices and other County policies on economic development. Necessary changes include clearly defining expected outcomes and performance measures, targeting industries that provide more economic impact, evaluating the potential benefits of projects prior to awarding fee waivers, and using data from the State to verify projected information. These changes would improve oversight and transparency, increase the return on the public's investment, and streamline the process to administer the Program.

The Director of Community Development generally agreed with the report and recommendations. His written response is included in Appendix B. In addition, the BOCC is pursuing further analysis and performance measures for the Program – two important recommendations made in this report. They declined the opportunity to provide written comments. We commend all of their efforts to improve the Program.

During this audit we noted strong support by the Board of County Commissioners and the Department of Community Development in improving the efficiency and effectiveness of Clark County and its programs. We appreciate the assistance provided by their staff as well as Public Works, the State of Washington's Employment Security Department, and the State of Oregon's Employment Department.

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Introduction

The use of economic incentive programs by state and local governments to spur economic development has grown dramatically over the past 30 years. Based on the most current data available, the value of incentivized subsidies is estimated at over $80 billion annually, nationwide. In Washington State alone, there are currently over 50 business incentive programs in existence, valued at over $2.2 billion each year. In Clark County, the primary vehicle for incentive-based government subsidies has been through fee waivers for permit application and Traffic Impact Fees (TIF).

Permit application Fees are paid by developers and business-owners to Clark County to cover the costs of design approval and the building inspection process. TIF fees help finance infrastructure improvements required for certain development projects. Impact fees in particular have grown in popularity throughout the country in recent decades as a means for local governments to shift the burden of infrastructure investment from the general taxpayer to those who benefit more directly from the improvements.

Background

Clark County's use of incentivized fee reductions originated in 2001, with the enactment of Clark County Code 40.620.010, which incorporated a 15 percent reduction in the TIF in recognition of additional future property tax revenues generated by the construction. In addition, Clark County also amended its TIF calculation to include an additional 30 percent reduction in the TIF, as a "Business Enhancement Factor" for retail and service related businesses.

Fee Waiver Programs

In 2010, in the wake of the Great Recession and the severe spike in unemployment that followed, the Board of County Commissioners began experimenting with fee waiver programs in an effort to stimulate job growth in unincorporated Clark County. The Corrected Job Creation Program, enacted in June 2013 was the latest iteration in a series of fee waiver programs, whose main purposes were to:

- Waive certain fees for a temporary period to help reduce business costs and thereby stimulate development in industrial, mixed use, business park, commercial retail and zones within County; and
- Spur private sector jobs-producing economic development.

The evolution of Clark County's fee waiver programs can be characterized as a steady movement on a policy continuum from a highly targeted approach to industry and jobs growth in the 2010 resolution, to the more generalized approach used in the current resolution. The following is a brief synopsis of Clark County's Fee Waiver Programs since 2010:

Resolution No. 2010-10-04: A Resolution of the Board of Clark County Commissioners of Clark County, Washington to Waive Development and Service Application Fees in Accordance with Specified Criteria for a Temporary Period (2010 Fee Holiday Program)

This resolution, also known as the "Fee Holiday" resolution was enacted on October 12, 2010, with a termination date of December 30, 2011. It attempted to shape job growth by limiting eligibility for fee waivers, primarily on tenant improvements, to under-represented industries seeking to locate in specific Focused Public Investment Areas, such as the Salmon Creek Research Park, and the Discovery Corridor.

Resolution No. 2012-02-01: A Resolution of the Board of Clark County Commissioners of Clark County, Washington to Waive Development and Service Application Fees in Accordance with Specified Criteria for a Temporary Period. (2012 Fee Waiver Program)

This follow-up to the original resolution was enacted in early 2012, with a termination date of September 28, 2012. The resolution abandoned the "specified criteria" of the first resolution with regard to investment areas and the targeting of under-represented industries. Instead eligibility focused on applicants who could create and maintain for at least two years 15 full-time-equivalent (FTE) positions. The resolution sought to further shape job growth by offering 100 percent waivers to non-retail sales industries, and only 50 percent waivers to retail sales businesses.

In May 2012, the BOCC reduced the job creation requirement for each project from 15 FTE to 10 FTE. They also added TIF waivers back to the program and moved the termination date to December of 2013. Later, in February 2013 they made additional changes to eligibility requirements. Specifically, language was added to ensure that only non-residential businesses are eligible for fee waivers.

Resolution No. 2013-06-06: Corrected Job Creation Resolution. (Job Creation – Fee Waiver Program)

The current fee waiver resolution was enacted on June 6, 2013. This resolution contains several significant changes from the prior resolutions. It offers 100 percent fee waivers to all non-residential business applicants, regardless of industry, including some non-profit entities, and it eliminates the job requirement, with the exception of businesses relocating within the county. Further, the resolution does not have a definitive termination date. Instead, it provides for re-evaluation of the fee waiver program 60 days after the County's unemployment rate dips below the unemployment rate for Washington State, or at the Board's discretion. Finally, the resolution includes new reporting requirements on the part of applicants, and requires additional monitoring on the part of Community Development and Public Works, including semi-annual progress reports to the Board. As this is the only program currently available to businesses, this is the primary focus of this audit.

Objectives, Scope, and Methodology

To assess the Program, we developed a logic model, analyzed Program data, investigated best practices, researched audits and national studies of economic development incentive programs, reviewed polling results of past fee waiver recipients, worked with economists from the State of Washington and the State of Oregon, and interviewed key County personnel. Additional information can be found in appendix A.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Director of Community Development generally agreed with the report and recommendations. His written response is included in Appendix B. In addition, the BOCC is pursuing further analysis and performance measures for the Program – two important elements included in the recommendations made in this report. They declined the opportunity to provide written comments. We commend all of their efforts to improve the Program.

During this audit we noted strong support by the BOCC and DCD in improving the efficiency and effectiveness of Clark County and its programs. We appreciate the assistance provided by their staff as well as Public Works, the State of Washington's Employment Security Department, and the State of Oregon's Employment Department.

Audit Results

The Job Creation – Fee Waiver Program is not Cost-Effective

Under the Job Creation – Fee Waiver Program (Program), the Department of Community Development (DCD) awarded $7.8 million in fee waivers, ($1.4 million in application fees and $6.4 million in TIF fees), to 153 projects between June 2013 and August 2014. Due to minimal eligibility requirements of the Program, the overwhelming majority of these subsidies went to retail and service industry businesses. We estimate at least $4.6 to $6.9 million in fee waivers were awarded to projects that, according to national studies and past fee waiver recipients would have occurred anyway. At best, the Program may have accelerated the timing of these projects. Further, the majority of jobs created and forecast are in the retail, food, consumer service, and entertainment industries. National research on job incentives programs casts doubt on the overall impact of such programs on job creation in these industries, finding in some instances that up to 90 percent of jobs credited to program incentives would have occurred anyway. Moreover, most Clark County residents who currently commute to Oregon work in other industries that pay higher wages. Therefore, these retail and service jobs are unlikely to measurably reduce the number of out-of-county commuters. Finally, at $7.8 million in waivers awarded over a 14-month period, the current program may not be financially sustainable without support from the General Fund.

Program Outcomes

While the *Corrected Job Creation Resolution No. 2013-06-06* identifies several problems the Program is supposed to address, specific outcomes are not defined. Interviews with the Board of County Commissioners (BOCC) and DCD helped clarify the purpose of the Program: to spur business development; create “good new jobs”; increase local job opportunities for residents commuting to Oregon for work; and market Clark County as a business friendly location. The Program is designed to influence these outcomes by waiving application and traffic impact fees (TIF) associated with certain construction permits. Figure 1 details all of this using a logic model to show the relationships between outcomes.

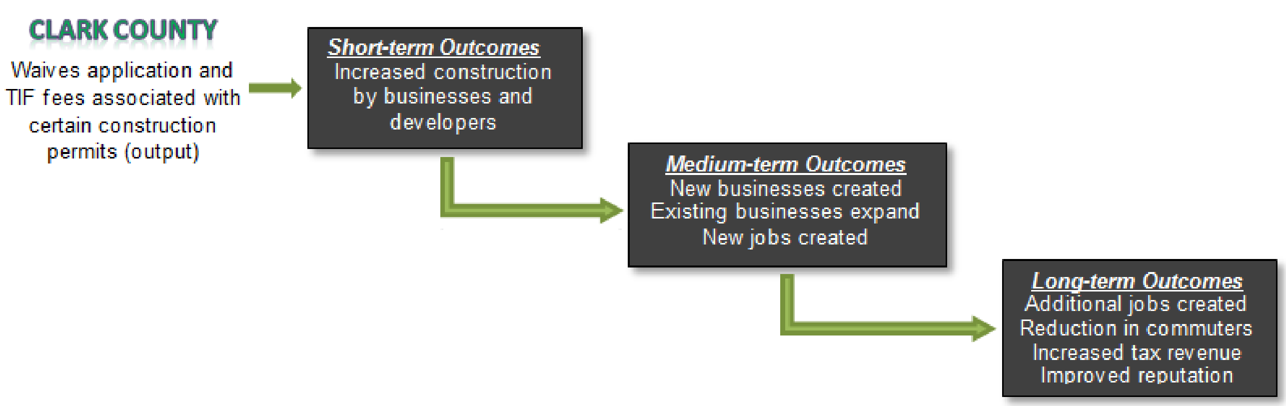

Figure 1: Fee Waiver Program Logic Model

The scope of this audit focuses primarily on the short-term and medium-term outcomes shown in Figure 1. Long-term outcomes implied in the resolution, such as increased tax revenue and improved reputation were not included in the scope of our review due to the lack of verifiable data available during the audit.

Clark County Fee Waiver Programs Appear to Have Had Minimal Impact on Business Construction

Assessing the impact of the fee waiver programs on construction in Clark County proved difficult as program data from fee waiver recipients was not tracked in a consistent manner across the three different programs, and the data collected was unverified. As a result, we had to rely on alternate means to measure the impact of the Program, which was done by comparing the level of fee-eligible construction activity to non-eligible construction activity in unincorporated Clark County.

Trends in construction activity during the four years that fee waiver programs have been in effect indicate that the programs have not had a significant impact. Figure 2 shows the value of residential and multi-family construction compared to all non-residential construction in unincorporated Clark County since 2010.

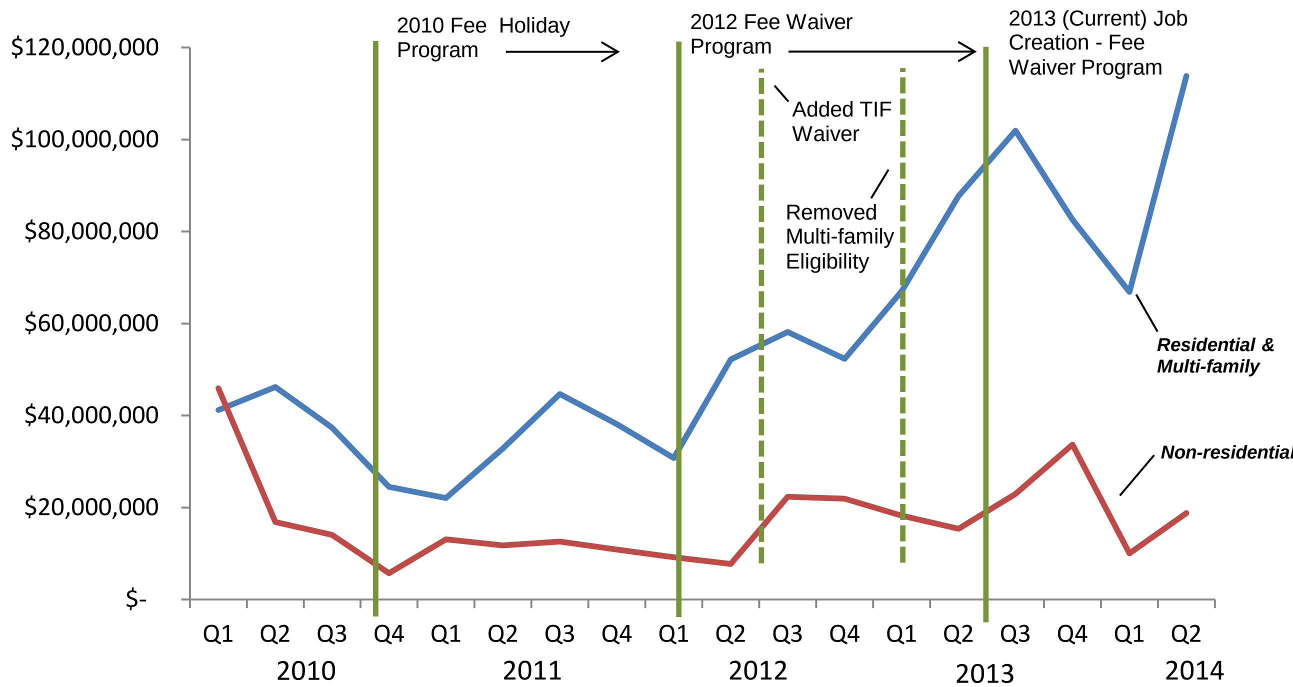

Figure 2: Value of Construction in Unincorporated Clark County: 2010 - 2014

Although residential activity grows more quickly than non-residential, the two trends follow similar patterns. This similarity appears unaffected by differences between fee waiver programs, or even major changes to elements during the 2012 program. These differences include eligibility requirements, amount of fees waived, and the obligation to create jobs or build in certain areas.

DCD was unable to provide data which contained total construction costs pertaining solely to projects eligible for waivers. As a result, the non-residential construction trend line shown in Figure 2 includes all projects eligible for fee waivers under the current Program as well as construction by governments and other small, miscellaneous projects. Being able to isolate Program-eligible construction against all other non-eligible construction would likely provide a more precise indicator. Nevertheless, the trends shown are representative of residential and non-residential construction activity in the county.

The trend showing a limited impact on construction activity was supported by the results of data collected on the original fee waiver program. In 2011, DCD designed and conducted a poll of businesses that received fee waivers under the County's 2010 fee waiver program to determine what impact the waivers had on their behavior[1]. About 60 percent of recipients stated the program had no influence on their decisions while 16 percent indicated the program only accelerated their plans to build. In other words, 76 percent of waiver recipients would have built or expanded their businesses in the same location without the fee waivers. Conversely, 13 percent said they would not have built at all without the subsidies while 11 percent said they were not sure if they would have built in Clark County without the waivers.

The limited effectiveness of incentive programs may be due in part to the number of incentives available to businesses. For example, in 2012 the City of Vancouver waived $400,000 in impact fees. The cities of Camas and Washougal have also waived some development or permitting fees over the past few years. In fact, according to a survey conducted by the International City/County Management Association, 95 percent of municipalities across the United States have business incentive programs. In addition to cities and counties, governments at the state and federal level also offer incentives. The State of Washington operates over 50 different incentive programs and has provided over $2.2 billion to businesses in the state each year, including some in Clark County. Estimates of total national spending on incentives exceed $80 billion annually.

In addition, studies of incentive programs across the country, such *as Economic Development Incentive Wars (1995)* and *Local Economic Development Policies (2003) by Timothy Bartik*, and *Tax Incentives: Costly for States, Drag on the Nation by Carl Davis* have found that incentives are much less important than other business factors and are often too small compared to other expenses to have a large influence. Moreover, in spite of their goal to stimulate local economies, recent studies such as *Evaluating Firm-Specific Location Incentives (2014) by Nathan M. Jensen* have determined the competition for businesses between local government programs may have an overall negative impact on regional economies (See Appendix C for list of research materials).

[1] 64 percent of all fee waiver recipients under the 2010 Program provided feedback. The survey was not updated for 2013 due to difficulties getting those recipients to respond to general requests for information.

Based on the results of these national studies, the feedback from Clark County fee waiver recipients and the trends in construction during the periods covered by fee waiver programs, the impact of the programs on construction appears to be minimal.

Majority of Fee Waivers Awarded Under the Current Program Went to Industries That Would Have Grown Without Them

About 68 percent, or $5.3 million, of the waivers under the current Program were awarded to projects in the retail, food, consumer service, and entertainment industries. Examples of these projects include fueling stations (gasoline), markets, coffee shops/stands, fast food locations, car washes, auto care, nail and beauty salons, massage parlors and spas. Fee waiver recipients in these industries also forecasted the largest number of jobs. Figures 3 and 4 show these distributions.

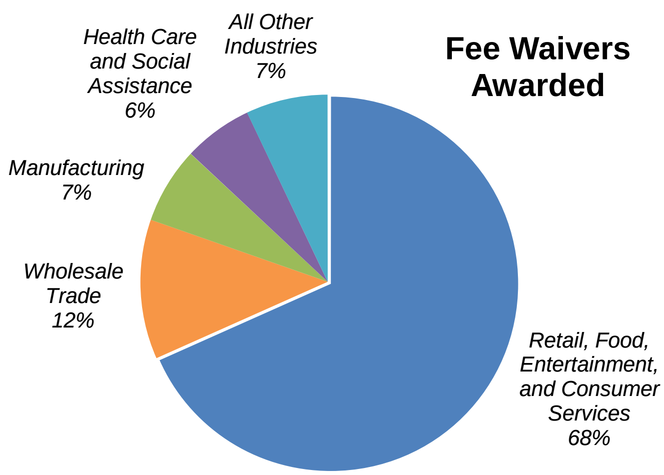

Figure 3: Distribution of fee waivers by industry

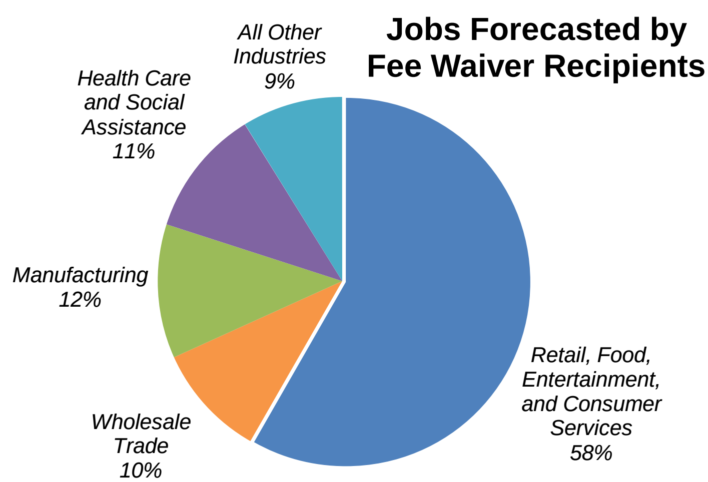

Figure 4: Distribution of forecasted jobs by industry

Data from the State of Washington confirms that 115 jobs have been added by businesses that received fee waivers under the current program and completed their projects. Of these, 64 percent are in the retail, food, consumer service, and entertainment industries.

The majority of projects which received waivers are local retailers and service providers that only sell their products and services locally. As such, sustainable growth for these local businesses depends on corresponding growth in the local economy and consumer demand. These industries are also highly susceptible to substitution effects – meaning consumers can easily find a similar good or service available locally. In a 2013 KPMG survey, retail and food industry CEOs ranked retaining customers, product innovation, adding new customers, and improving economic conditions as the most important factors for business and job growth. They also rated decreased consumer confidence as the number one factor most likely to hinder growth.

In fact, studies of programs which provided incentives to these industries determined the incentives actually resulted in decreased sales and jobs at other competing businesses. For example, the Louisiana Department of Economics' analysis of its Enterprise Zone program found 90 percent of the newly created jobs in the retail and restaurant industries under an incentive program were displacing existing jobs. This displacement is less likely to occur when incentives are provided to industries which sell their product to customers outside of the area, (export), as they bring additional money into the local economy. Similarly, local businesses which sell products that replace those imported in from other areas reduce money leaving the local economy.

Research has also found the additional economic benefits provided by jobs in the retail industry is almost half that of others. These additional benefits include increased consumer spending and jobs added in other industries. The difference in economic impact is due in part to the low wages paid to employees in these industries. In addition, many of the products they sell are not manufactured locally. Therefore, the dollars these businesses spend on inventory ends up building the economies of other regions.

Based on the industries that received most of the waivers, the responses from waiver recipients in past programs, and the results of other studies, we estimate the following fee waivers had no impact on business growth or job creation:

Low Range Estimate[2]
$4,688,244 60% of all fee waivers awarded

High Range Estimate[3]

$4,804,873	90% of fee waivers awarded to retail, food, entertainment, and consumer service industries
$2,153,243	87% of fee waivers award to all other industries
$6,958,116	

It should be noted that the fee waivers awarded to businesses in the Manufacturing, Healthcare, and Wholesale Trade industries may have a positive impact on job growth in the local economy. The forecasted data is preliminary and as yet unverified, and the degree to which these businesses were influenced by the Program is unknown. Still, the Program may yield more cost effective results if the eligibility requirements targeted projects and industries like these.

Majority of Projects Receiving Waivers are Also Unlikely to Reduce the Number of Residents Commuting to Oregon for Work

The most recent data available from the State of Oregon shows more than 55,000 Clark County residents commute into Oregon for work. Over half of

[2] Based on the lowest figure and most conservative interpretation of the recipient responses to DCD's 2011 poll
[3] Based on the highest figures and most aggressive interpretation of recipient responses to DCD's 2011 poll and results of other studies

these commuters travel to jobs which pay $769 per week – about $40,000 per year – or more. These jobs are in industries such as mining, construction, manufacturing, wholesale trade, transportation, and utilities. By contrast, a 2014 census of regional employers show jobs in the retail, food, consumer service, and entertainment industries pay an average of $625 a week or less (see figure 5).

Average Weekly Wage by Industry Portland – Vancouver – Hillsboro Metro Area * Retail, Food, Consumer Service, and Entertainment Industries	
Finance and Insurance	$1,748
Manufacturing	$1,527
Information	$1,472
Construction	$1,066
Mining, Quarrying, and Oil Extraction	$963
Transportation and Warehousing	$892
Real Estate and Rental Leasing	$808
Administrative and Waste Services	$655
* Other Services	$625
* Retail Trade	$554
Agriculture, Forestry, Fishing and Hunting	$514
* Arts, Entertainment, and Recreation	$510
* Accommodation and Food Services	$350

Figure 5: Average Weekly Wage by Industry – Source: U.S. Bureau of Labor Statistics

This means many commuters would have to change industries and take a decrease in pay to work in Clark County. This change would only make financial sense for commuters in the lowest pay ranges that can find full time work in the highest paid consumer service jobs in Clark County. This excludes well over half of the residents who currently commute to Oregon for work. Thus, the extent to which the Program might have an impact on the commuter workforce is limited by the small minority of fee waivers awarded to industries with jobs and wages commensurate with those held by the majority of Clark County's commuters.

Funding for the Program May not be Sustainable and May Impact Future County Infrastructure Projects

While benefits of the Program will be realized in the future, the costs of waiving fees are realized immediately. The costs of the Program are currently supported by fees paid by residential, multi-family, government, and other construction projects ineligible for waivers. During the second quarter of 2014, the fees collected were not sufficient to cover the cost of DCD's permitting operations, resulting in a $350,000 decline in funds reserved for other planned expenses. Based on this trend, management projects they will need General Fund support to continue permitting operations during the next biennial budget. If the revenue from fees paid by ineligible projects declines relative to the value of fees waived, DCD will require support earlier than projected.

In addition, the loss of TIF fees may result in delays to key future infrastructure projects. As TIF fees are paid by private entities, the County is able to use them to increase its competitiveness for certain federal grants which award extra points for having private dollars as matching funds. And while TIF fees are not a large funding source for infrastructure spending, projects that depend on these fees will have to be supported by the Road Fund. This reduces monies available for other infrastructure projects.

Public Works was not able to determine which specific infrastructure projects could be delayed. However, they did note the projects at risk are those whose design phase is several years away and are not yet reasonably funded or committed to construction by developer agreements or grants. According to Public Works, the projects on the current Transportation Improvement Plan (TIP) that meet these criteria are those planned at NE 179th street (Delfel to NE 15th Avenue) and NE 15th Avenue (179th Street to 10th Avenue). It should be noted if these projects are delayed, the BOCC could intervene by delaying other projects to free up funding, or borrowing money to keep them on schedule.

Conclusion

Due to the estimated $4.6 to $6.9 million in fee waivers which appear to have had little to no impact on businesses and the industries receiving the majority of fee waivers, the Program, as it is currently designed, is not cost-effective at achieving its intended outcomes. Considering this, and the potential negative financial impact on infrastructure spending and the General Fund, the BOCC should consider eliminating this Program.

If Continued, Substantial Changes are Necessary to Improve the Effectiveness of the Program

Despite the limited causal link found in the much-studied relationship between incentive programs and job creation, these programs continue to persist. According to an ICMA survey, 95 percent of municipalities across the United States offer business incentive programs of one kind or another, and it is unlikely that anyone is going to be the first to unilaterally disarm in this high-stakes game of "job incentive chicken." Given that fact, and given the limited impact these programs seem to have on job growth, it is incumbent upon management to maximize effectiveness by implementing its programs in accordance with best practices.

Program Does Not Follow Best Practices or Align with Other County Policies on Economic Development

Currently, the Program does not follow best practices for economic development incentive programs, such as clearly defining expected outcomes, performance measures, or methods to validate program data. As a result, the Program lacks transparency and is difficult to manage or evaluate. Management attempted to develop these key elements early in the Program, but this resulted in inconsistent data collection, as the information required on application forms kept changing. County staff had to repeatedly contact fee waiver recipients who applied during the first 10 months of the Program to obtain data not originally required. This generated frustration on the part of recipients, so much so that some have stopped responding to County inquiries all together. DCD states it now has approximately 82 percent of all the required information. However, they noted that applicant confidence in jobs and sales figures provided ranged from highly speculative to best guess. Consequently, the data used by DCD is comprised of unverified applicant-reported figures and formula based estimates.

The results of the Program also do not contribute towards the County's ability to achieve its economic development goals and in some instances works contrary to them. The County's Comprehensive Plan outlines its economic development strategy and goals, as well as the policies it will pursue to achieve them. Three recurring principles stand out in these policies:

1. Increasing economic opportunity for all citizens;
2. Increasing the standard of living through the growth of family wage jobs; and
3. Increasing the number of jobs available in Clark County to reduce the need for citizens to commute outside of the County for work.

With minimal eligibility requirements for participation, the Program may address economic opportunity for all citizens. However, the majority of jobs forecasted by waiver recipients are in the retail, food, and consumer service industries. Their typical salary is well below the threshold for a family wage as defined in Clark County Code. As such, they are unlikely to increase the standard of living in the County or encourage the return of commuters.

The following is a discussion of how to maximize the Program's potential impact on the short, medium, and long-term outcomes as defined in this audit.

Short-term Outcome: Increased Construction by Businesses and Developers

The first outcome of the Program is to "spur development," i.e., increase construction by businesses. Basic tenets of effective program management are to have clearly stated goals with timeframes, measureable benchmarks, and access to reliable data with which to gauge progress towards achieving goals.

Management has not consistently tracked construction value directly related to fee waiver recipients. We requested this data, but were unable to obtain it due to the prohibitively manual process required to extract the numbers from the permitting software. The Project Summary chart maintained on the Clark County website contains data on construction value, but this data is incomplete and could easily be misinterpreted. In order to serve transparency and to effectively monitor and measure the value of construction related to the Program, management should implement procedures immediately to track, monitor, and report total Program-related construction.

The Program has defined a benchmark for the construction on each project. Recipients are required to "diligently pursue construction", defined as obtaining building inspections on a particular schedule. This is an improvement over prior programs which contained the same requirement, but failed to define diligent pursuit. However, the Program has no expectation that overall construction is completed within a specific timeframe. As a result, speculative projects could receive fee waivers and not complete construction for several years. Indeed, several projects that have received waivers are unable to even identify the types of businesses they will have as tenants. This is contrary to the Program's intent to have an immediate impact on unemployment – the only performance measure listed in the resolution.

In order to maximize the Program's potential effect on construction, management should establish program level benchmarks and some type of expiration date for waivers. Furthermore, DCD should periodically poll fee waiver recipients to determine how much the subsidies influenced their decision to build and grow their business. Agreeing to provide feedback should be a condition for participation in the Program.

Medium-term Outcomes: Business Growth and Job Creation

The ultimate goal of the program, as indicated in the resolution title, is job creation. Yet, the Program only requires businesses relocating within the county to create additional jobs in order to participate. Further, there is no mechanism currently in place to follow up and verify waiver recipients' job projections. There are no reporting requirements on the part of recipients with regard to jobs created. It is commendable that DCD requires some kind of projection in exchange for waivers. However, with no reporting requirements, follow-up, or verification of these projections, there is no way to hold waiver recipients accountable for the substantial benefits they have received or will accrue. Further, relying on inaccurate data makes the Program difficult to manage and evaluate.

Washington State agencies maintain employment related jobs data, which local governments can obtain through data sharing agreements. By using this data, DCD would be able to verify the number of jobs added by waiver recipients during a given period. Moreover, this process can be automated which will help streamline the current management process.

In order to improve the effectiveness of the Program on job creation, the BOCC should establish net new job and retention requirements for applicants. In addition, DCD should pursue data sharing agreements with the state to verify the jobs forecasted by recipients and confirm the net new jobs added by each business. This will improve recipient accountability. At the Program level, both the forecasted and actual data should be adjusted based on the results of periodic polling of program participants. This will provide the best estimate of the total net new jobs induced by the Program, improving management's ability to assess its overall effectiveness.

Long-term Outcomes: Out-of-County Commuters and Additional Economic Benefits

One of the long-term outcomes of the Program is to address the County's status as a "bedroom community" by providing job opportunities for Clark County residents who currently commute to Oregon for work. This is also one of the major principles in the County's Comprehensive Plan. However, there is little correlation between the types of industries receiving waivers under the Program and the types of jobs needed to accomplish this goal. As previously stated, the majority of commuters working in Oregon are in industries that pay more than $40,000 annually. By contrast, the majority of businesses granted waivers under the Program are in the low wage retail and service industries. As noted in Figures 3 and 4 on page 7, a minority of fee waivers were awarded to higher wage industries whose growth might succeed in providing the types of jobs necessary to compete for Clark County's out-of-County commuters.

In order to improve the Program's effectiveness in achieving this goal, management should work with the BOCC to redesign the Program to focus on the types of higher wage industries that will keep Clark County residents working in Clark County. These industries will also provide double the additional economic benefits as consumer based industries. In addition, they are less likely to result in displacement of existing jobs. In short, targeting higher wage industries maximizes the return on the public's investments through the Program.

Summary of Recommendations

1) *We recommend the BOCC consider eliminating the Program, or work with DCD to implement substantial changes to improve its effectiveness.*

2) *If the Program is continued, we recommend the BOCC and DCD improve the Program's effectiveness, accountability, and transparency by adopting best practices and aligning the Program with other County policies on economic development:*
    a. *Clearly state the expected outcomes of the Program and define performance measures;*
    b. *Target higher paying family wage industries;*
    c. *Implement procedures to track, monitor, and report total Program-related construction;*
    d. *Evaluate the economic and fiscal benefits of projects prior to awarding sizable waivers;*
    e. *Track fund balance by fund/department (i.e., permitting and inspection operations from the Building fund, and development engineering from the Road fund);*
    f. *Periodically poll fee waiver recipients to determine if the subsidies influenced their behavior; and update application materials to disclose that recipients must provide feedback;*
    g. *Pursue data sharing agreements with the state to verify the jobs;*
    h. *Establish net new job creation and retention requirements – net new jobs would be measured on each project by comparing jobs added by the recipient to a baseline created from a historical average of their employment levels;*
    i. *Establish enforcement mechanisms – (i.e., claw back provisions, etc.)*
    j. *Establish expiration date system for waivers; and*
    k. *Survey the business community at large to evaluate their perception of Clark County as a business friendly location.*

While this audit evaluated and makes recommendations for the Job Creation – Fee Waiver Program, Clark County should have an overall strategic plan for business incentives. Such a plan could include fee waivers as one tool which could be applied to certain projects. Other incentives the County currently offers could be included as well. For example, the current TIF program includes a 30 percent discount for certain businesses and a 15 percent discount on all construction. In addition, Public Works is able to negotiate TIF credits and waivers of concurrency requirements for certain projects. A comprehensive plan could provide an inventory of these tools, guidance in their application, and better market the full breadth of Clark County's efforts to build the regional economy.

Appendix A: Audit Methodology

Audit Objectives

1) Evaluate the design and implementation of the job creation/fee waiver program, and determine if the program: (a) Follows best practices, (b) aligns with Clark County policies, and (c) has been properly managed and monitored.
2) Assess the costs and benefits of the program.

Scope

Audit work focused on the Job Creation-Fee Waiver Program from its inception in June 2013 through August 2014. However, for the purposes of historical context we also reviewed data on the County's prior fee waiver programs, in particular the initial "Fee Holiday" program enacted in October 2010.

Methodology

To gain an understanding of the job creation/fee waiver program, we interviewed the Community Development Director and Administrative Services Manager, Public Works staff involved in the management of the County's Road Fund, Regional Economist for the State of Washington's Employment Security Department, Clark County Board of Commissioners, Director of Economic Development, Budget Manager, Senior Policy Analyst, and Accounting Manager. We also researched and reviewed applicable RCW's, county policies and economic development plans, prior audits of economic development plans for other states and municipalities, and reviewed established best practices for economic development programs. Additionally, we interviewed and obtained employment data from the State of Washington's Employment Security Department, the State of Oregon's Employment Department, and the Columbia River Economic Development Council.

To evaluate the effectiveness of the design and implementation of the Job Creation-Fee Waiver Program, we compared the legislation and its implementation with that of best practices. In particular, we evaluated the extent to which the program aligned with existing Clark County economic development policies, as well as Community Development staff's ability to obtain accurate program data, and measure fee waiver recipients' performance in order to assess the overall benefits of the program relative to its costs.

To assess the costs and benefits of the program, we had to first develop a logic model to understand the expected outcomes and their relationships. The model was based on verbiage in the resolution and comments from interviews. As a result, we endeavored to assess the impact of the program in terms of (1) the extent to which construction projects and the associated business and job growth would have been created, with or without the program; (2) the ability to influence growth in the industries receiving most of the fee waivers; (3) wages and other economic benefits offered by industries receiving most of the fee waivers, and (4) types of jobs held by county commuters working in Oregon.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We thank the staff in the Community Development Department, the Commissioners' Office, and the Department of Public Works for their time, information, and cooperation during this audit.

Limitations

We had concerns over the accuracy of applicant supplied data and the difficulty in obtaining project specific data from the permitting software. These concerns were shared with the auditee, accounted for in our audit work, and noted in the report.

Appendix B: Management Comments

The Department of Community Development provided the written comments below.

COMMUNITY DEVELOPMENT

proud past, promising future

CLARK COUNTY
WASHINGTON

October 20, 2014

Greg Kimsey
Clark County Auditor
1300 Franklin Street
P.O. Box 5000
Vancouver, WA 08666-5000

Re: Audit of Clark County' Job Creation-Fee Waiver Program – Report #14-02

Dear Mr. Kimsey,

I take this opportunity to thank you and the Audit Services team for examining a complex set of issues. Speaking on behalf of Community Development, we certainly appreciate the investments made and the jobs created by businesses that have recently located or expanded in Clark County. We note that economic conditions have changed since the program started in October of 2010.

Regarding the recommendation to eliminate or modify the program, as the appointed Community Development Director, I will defer to the elected policy makers. If the Board of County Commissioners wishes to modify the program, I would gladly participate in any related discussions.

As to other recommendations in the report, I offer comments on a select few. For example, Community Development staff would welcome discussions and ideas regarding how to improve metrics to gather accurate, reliable data to then measure against the metrics.

Regarding monitoring projects and surveying the business community, additional resources, and perhaps partnerships, would be needed to do a more effective job. Of specific note, Community Development would welcome any data sharing agreements that the report mentions.

Overall I welcome an opportunity to work with the Board of County Commissioners and its staff to determine a path forward. In closing, I thank the Clark County Audit Services team for their clear communication and professionalism throughout the proceedings and look forward to follow-ups in the coming months.

With regards,

Martin L. Snell, AICP
Director

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Appendix C: List of Selected Research Materials

Bartik, Timothy J. *Local Economic Development Policies* (2003) W.E. Upjohn Institute for Employment Research.

Bartik, Timothy J. *Increasing the Effectiveness of Economic Incentives* (2014) W.E. Upjohn Institute for Employment Research.

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