



*2022 FTA Revenue Estimation and Tax  
Research Conference*

# Evaluating the Effectiveness of Tax Incentives Without ROI

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October 24, 2022

 Independent Fiscal Office

# Background: Independent Fiscal Office

**Created by Act 120 of 2010 and began operations in 2011**

## **Nearly all states have a fiscal office**

- But they are housed within the state legislature | PA is unique
- All others have a governing board composed of legislators
- Bi-partisan vs non-partisan

## **Duties span a wide range of issues:**

- Revenue estimates (how much revenues are available?)
- Performance based budgeting | Tax credit reviews
- Special Studies: property tax reform, natural gas, minimum wage

# Act 48 Tax Credit Reviews

## **Statute: Did the tax credits accomplish their legislative intent?**

- Submit reviews to Performance-Based Budget Board
- Annual legislative hearing | Administering agency included
- Reports available on the IFO website

## **Key Points**

- Goals and purposes must be established
- Include a comparison of similar programs in other states
- Make program improvement recommendations
- Calculate a return on investment (ROI), if applicable

# When the Goal is NOT to Maximize ROI

## **Some tax credits are not designed to motivate economic growth**

- Charitable contributions
- Environmental protection
- Public health

## **Evaluating these programs presents unique challenges**

- Calculating an ROI for these programs does not indicate whether incentive is accomplishing its legislative intent
- Quantitative outcome data is often lacking

# Resource Enhancement and Protection (REAP)

## **Credit rate 50-75% of agricultural best management practice (BMP) project costs**

- May be used in combination with other public sources of funding (e.g., Conservation Innovation Grant)
- BMP projects may receive funding via private sponsorship (e.g., banks)

## **Other Program Specifics**

- Nonrefundable | Credits may be sold, assigned or transferred
- Annual program cap was \$10 million | Raised to \$13 million (2019)

# Resource Enhancement and Protection (REAP)

## Goals

- Encourage private investment in the implementation of best management practices (BMPs) on agricultural operations
- Reduce the financial burden on farmers who implement BMPs
- Increase voluntary compliance with environmental and agricultural management laws

## Purpose

- Improve water quality by reducing nitrogen, phosphorus and sediment pollution through BMPs

# REAP Awards and Project Funding

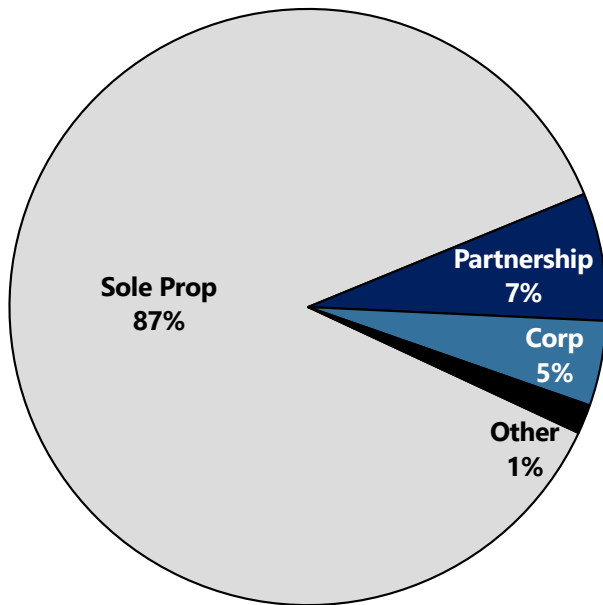
	Award Year				
	2015	2016	2017	2018	2019
<b>Number of Projects</b>	514	410	424	360	421
<b>Total Project Costs</b>	<b>\$19.8</b>	<b>\$22.0</b>	<b>\$22.8</b>	<b>\$19.8</b>	<b>\$25.4</b>
REAP Eligible	\$16.9	\$17.1	\$17.7	\$16.0	\$20.3
<b>Other Public Funds</b>	<b>\$2.6</b>	<b>\$4.4</b>	<b>\$4.5</b>	<b>\$2.9</b>	<b>\$4.0</b>
% of Total Cost	13%	20%	20%	15%	16%
<b>Credits Issued</b>	<b>\$8.6</b>	<b>\$8.5</b>	<b>\$9.1</b>	<b>\$8.1</b>	<b>\$10.7</b>
% of Total Cost	43%	39%	40%	41%	42%
Average Credit	\$16,700	\$20,800	\$21,400	\$22,400	\$25,500
<b>Private Investment</b>	<b>\$8.6</b>	<b>\$9.0</b>	<b>\$9.2</b>	<b>\$8.8</b>	<b>\$10.7</b>
% of Total Cost	43%	41%	40%	44%	42%

Note: Dollar amounts in millions, except for Average Credit.

Source: Pennsylvania State Conservation Commission.

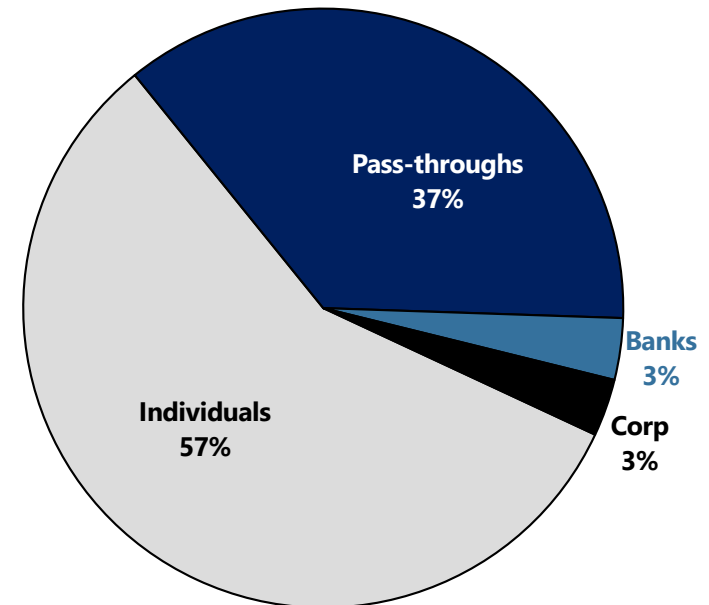
# USDA vs. REAP Application Data

**PA Farms by Entity Type (2017)**



Source: National Agricultural Statistics Service, USDA.

**REAP Awards by Entity Type (2019)**



Source: Pennsylvania State Conservation Commission.



# State Comparison

## Chesapeake Bay Program

- Pennsylvania and five other states (plus D.C.) are part of the Chesapeake Bay Watershed Agreement
- Sets a “total maximum daily load” for nitrogen (N), phosphorus (P) and sediment pollution to be completed by 2025
- Each state has their own load goals. Must develop Watershed Implementation Plans approved by the EPA.

## Pennsylvania and Virginia the only states with tax credits

- Most other states rely on grants, loans, technical assistance programs

# Progress On Pollution Reduction

Chesapeake Bay Program Partner State Pollutant Reductions

	% Reduction 2009 to 2019			% Reduction Needed for 2025		
	N	P	Sed	N	P	Sed
Delaware	-10.7%	-19.3%	-41.5%	-29.7%	-3.7%	-11.6%
Maryland	-11.6	-2.4	-0.3	-9.9	-6.9	0.0
New York	-5.6	-15.4	-7.0	-15.8	-5.8	-18.2
Pennsylvania	-3.9	-14.6	-13.7	-32.1	-23.7	-23.9
Virginia	-13.8	-9.8	-2.4	-9.7	-11.4	0.0
West Virginia	-3.6	-30.9	-7.9	0.0	0.0	0.0
<b>Total<sup>1</sup></b>	<b>-8.5</b>	<b>-10.4</b>	<b>-4.0</b>	<b>-19.7</b>	<b>-12.2</b>	<b>0.0</b>

Note: N is nitrogen, P is phosphorus and Sed is sediment. A zero under the percent of reduction needed for 2025 indicates the target has been met or exceeded.

<sup>1</sup> Includes reduction amounts from the District of Columbia.

Source: Pennsylvania Department of Environmental Protection.

# REAP Program Recommendations

## **Collaborate with DEP on environmental modeling**

- Evaluate impact of BMPs at the program level
- Award credits based on objective data for maximum impact
- Identify most cost-effective BMP for farming operation/location

## **Convert tax credit to a competitive grant**

- Target operations that likely release high levels of pollution
- Provide up-front funds for farmers that may lack access to capital
- Benefits small farmers that must wait 12 months to sell credit

# Key Takeaways

## **We can still measure the effectiveness of tax incentive programs without ROI**

- Agencies tend to limit focus to applicants and dollars
- Recipients view program as more than just the tax credit dollars

## **Conversations with stakeholders are necessary**

- What is it like to participate? To go through the process?
- Highlight policy design issues, inefficiencies, administrative burden

# Questions

Presentation posted on the IFO website

<http://www.ifo.state.pa.us/>

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