MAXIMIZING RETURNS:

A PROPOSAL FOR IMPROVING THE ACCOUNTABILITY OF CALIFORNIA'S INVESTMENTS IN ECONOMIC DEVELOPMENT

EXECUTIVE SUMMARY

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California Budget Project

The **California Budget Project** (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low and middle income Californians. This report was made possible by a grant from the Ford Foundation, and ongoing general operating support for the CBP is provided by the James Irvine, Charles Stewart Mott, California Wellness, and Friedman Family Foundations and the Penney Family Fund. Additional support for the CBP comes from foundation grants, publications, and individual contributions.

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Executive Summary

In November 2001, economists declared that the nation's economy was officially in a recession. California's unemployment rate rose by 1.1 percentage points between January and November, and there were over 250,000 more jobless Californians in November than at the beginning of the year. The downturn in the economy has been accompanied by a sharp deterioration in the state's fiscal condition, with forecasters now predicting a state budget deficit in excess of $10 billion in the upcoming fiscal year.

The recession, which follows a period of unprecedented economic growth, has prompted renewed interest, at both the state and national levels, in how public policies and public dollars can best be used to stimulate the economy. To date, most of the debate has focused on what new efforts might be initiated to improve the state's economy. Little or no attention has been paid to whether the billions of dollars the state already spends each year to promote a healthy economy are achieving their desired result.

Policymakers are now faced with the challenge of bridging a substantial budget gap and, at the same time, coping with the impact of an economic slowdown. ***Maximizing Returns: A Proposal for Improving the Accountability of California's Investments in Economic Development*** attempts to recast these challenges as an opportunity to take a fresh and comprehensive look at what constitutes economic development, how much the state currently spends to promote a healthy economy, and whether these public investments are well spent. While recent policy debates around issues such as education have focused on accountability and performance standards, no similar standards have been applied to state spending for economic development, as this report will document. Moreover, the state has failed to adopt a strategy, goals, or objectives to guide the use of resources devoted to promoting a healthy economy. Some of the lack of attention and guidance stems from the lack of a comprehensive vision of economic development that takes into account not only traditional business assistance programs, but also the full array of state tax, regulatory, workforce development, and other programs that support a comprehensive approach to economic development.

Maximizing Returns seeks to present a comprehensive examination of state economic development spending. This analysis uses a functional framework to examine the totality of state spending, including both dollars appropriated through the annual budget act and dollars spent through the tax code, and asks what accountability provisions, if any, are currently used to ensure the effective use of state resources. Specifically, this report asks:

- **What state programs and policies support economic development?**
- **What economic development functions and goals are our tax dollars supporting?**
- **How much of state economic development spending is subject to evaluation or review?**
- **How could California's economic development dollars be better spent?**

Maximizing Returns analyzes state economic development spending over the past six budget years, including "on-budget" spending allocated through the annual budget act, such as state job training

programs, and tax incentives, or "off-budget" spending.[1] This report does not single out specific programs as "bad examples," or recommend elimination of any current programs. Rather, it encourages an assessment of *all* state economic development expenditures in order to maximize the state's return on its economic development investments. Such consideration can help policymakers identify ineffective efforts and build on successful ones, as well as highlighting where program goals should be updated to reflect a changing economy.

The main body of this report explores the general concept of economic development, discusses the need for and components of program evaluation, provides an overview of state economic development programs and tax incentives, and presents key findings and recommendations. These findings are based on the research presented in the Appendices to the report. Appendix 1 lists state economic development programs, including a brief description of each. Appendix 2 presents a matrix of spending on each program for the years 1995-96 through 2000-01. Appendix 3 lists evaluation and reporting requirements for each program.

What is Economic Development?

In order to examine economic development spending in California, it is important to address several key questions:

- **How do we define economic development?**
- **What are the goals of economic development?**
- **How should the success of economic development programs be measured?**

The current lack of consensus on the answers to these questions makes it difficult to determine whether economic development spending has a significant effect on the state's economic health, business climate, and quality of life. Current economic development spending, particularly tax expenditures, primarily supports individual firms and businesses. This business development approach has resulted in a tax-focused system that emphasizes reducing business costs, as opposed to a broader "economic development" approach that seeks to build healthy communities.

While traditional models of economic development focus on economic growth, economic development in its broadest sense encompasses nearly every state budget program and expenditure. In general, most economic development programs are based on the goals of job and income creation, fiscal improvement (e.g., generating new tax revenues), and/or physical improvements.[2] For public officials, economic development often means job creation, which in their eyes is achieved by stimulating business activity. Under this definition, economic development policies "have in common an attempt to reduce some sort of business costs, broadly defined."[3]

Although all of these issues - job creation, business support, quality of life, infrastructure improvement, and job quality - are important components of economic development, the broadest definition of economic development would require an examination of almost all state budget programs and expenditures, which is beyond the scope of this report. For example, although infrastructure construction, maintenance, and development are critical to the state's economic health, entire reports could be (and have been) written on this issue alone. ***Maximizing Returns*** attempts to strike a balance between the vast realm of "almost everything states do" and the narrow characterization of business and job retention and creation. Specifically, this report focuses on activities that foster job creation, technological development, a healthy business sector, and a skilled workforce.

Toward that end, ***Maximizing Returns*** classifies state economic development spending into eight func-

tional categories:

1. **Developing Products and Improving Manufacturing Processes;**
2. **Promoting Research and Technology;**
3. **Developing Local Economies;**
4. **Planning and Management Support for Business;**
5. **Facilitating Regulatory Compliance;**
6. **Developing a Skilled Workforce;**
7. **Business Capital and Funding; and**
8. **Marketing and International Markets.**

These categories provide a framework for examining the functions and assets that contribute to a healthy economy.[4] They also help indicate where programs might be consolidated in order to minimize duplication or better coordinated to increase program effectiveness and efficiency.

It should be noted that the Developing a Skilled Workforce category only includes programs primarily aimed at helping employers secure a skilled workforce. While programs designed to boost the knowledge or skills of individual workers contribute to a healthy economy, they are primarily aimed at furthering the skills of individuals and, therefore, are not included in this report. ***Maximizing Returns*** also excludes funding for workforce development received from the federal government, including Workforce Investment Act (WIA) moneys.

Overview of State Economic Development Spending

California's economic development spending is spread across more than two dozen departments, agencies, boards, commissions, and authorities, with no centralized lead or oversight entity. Nearly all of the $5.5 billion spent each year through the tax code on economic development is not tied to any state program and receives no oversight whatsoever. Such fragmentation hinders public access to these programs. While individuals and businesses can go to local Employment Development Department (EDD) field offices for assistance with issues such as job placement, business expansion, and worker relocation, they often do not realize that these offices and services are available to them, much less services offered by offices such as Permit Assistance Centers or local Workforce Investment Boards. In addition to the difficulties of navigating state economic development programs, the lack of a coordinated strategy severely complicates attempts to assess the effectiveness of economic development spending.

The majority of the state's spending for economic development occurs through the state's tax code. In 2000-01, $5.5 billion of the $7.8 billion in economic development spending identified in this report came in the form of revenues lost as a result of the more than 75 provisions of state tax law that have goals consistent with the definition of economic development used in this report. Economists use the term "tax expenditure" to refer to efforts to implement policy goals through the tax code. The use of the term "expenditure" highlights the fact that, from an economic standpoint, there is no difference between provisions that provide special tax treatment for a specific industry or activity, and a grant or other traditional spending program that supports the same industry or activity.

It is difficult to assess the effectiveness of tax expenditures because, unlike direct program expenditures, they are not reviewed as a part of the annual budget process and often times little or no data is available to determine whether or not an incentive has achieved its desired policy goal. Most state tax expenditures are not subject to regular evaluation, unless formal review and reporting requirements or sunset dates are included in the original legislation. In order to serve as an effective economic development

strategy, tax expenditures should have a well-articulated policy goal and identifiable outcomes that allow policymakers to determine whether an incentive makes the best use of public resources.

Questions for Evaluating the Effectiveness of Economic Development Incentives

Any evaluation of the effectiveness and efficiency of economic development spending should examine whether a program or tax policy:

- Has a clearly defined outcome.
- Effectively addresses the desired outcome.
- Provides sufficient benefits to encourage or achieve the desired outcome.
- Rewards a business or individual for doing what they would have done in the absence of the program or policy.
- Is of equal or higher priority than competing uses of public resources.
- Is consistent with existing law, priorities, and precedents.

The issue of program design and accountability is particularly important in light of the difficulty of modifying or eliminating tax expenditure programs once they are enacted. The state's constitution requires a two-thirds vote of each house of the Legislature to pass any measure that increases state revenues, including provisions that narrow eligibility for or reduce the benefits provided by a tax expenditure. In contrast, any measure reducing state revenues can be enacted by a majority vote.

Measuring the Success of Economic Development Programs

While the categories presented above provide a framework for examining different goals of state economic development programs, they do not provide information on the effectiveness of state efforts to attain these goals. Oversight and evaluation can help ensure that programs are accountable for the effective and efficient use of public resources, as well as providing for broader public and legislative scrutiny. Oversight should, at a minimum, address these questions:

- **How much are taxpayers paying?**
- **Who benefits from the program?**
- **Should others benefit?**
- **Is this the most effective and efficient way to achieve state policy goals?**

In addition, evaluation can be used to identify "best practices" that can be replicated, support long-term planning efforts, and help motivate personnel.[5] The ability to conduct an effective evaluation depends upon program design that:

- **Defines program goals clearly at the outset;**
- **Identifies appropriate indicators or benchmarks to measure progress toward program goals;**
- **Ensures adequate data collection; and**
- **Establishes a formal process for reporting results and receiving feedback.**

One of the most difficult aspects of program evaluation is deciding what to measure. Policymakers can measure the outputs of a particular program, such as the number of units of a service provided. While evaluations based on measuring outputs provide information about the quantity of program activities, they do little in the way of measuring the quality or effectiveness of those activities. Another option is to measure outcomes, or the results of the program. While measuring ***outcomes*** may be a more effective way to evaluate a program, it can be much more complicated than measuring ***outputs***.

One reason evaluation often focuses on outputs is that they are generally easier to quantify than outcomes. Also, while an evaluator can easily describe the activities of a program, it is quite difficult to conclusively attribute economic outcomes to a specific program, since many other factors can affect the health of the economy of a state or region. Therefore, appropriate outcome indicators should not only accurately measure the desired outcome, but also assess the ***impact*** of the program in question. Selecting indicators becomes even more difficult when a program or policy has more than one desired outcome, such as a workforce development program aimed at both improving employment opportunities for participants and attracting new employers to an area by boosting the skills of the labor force.

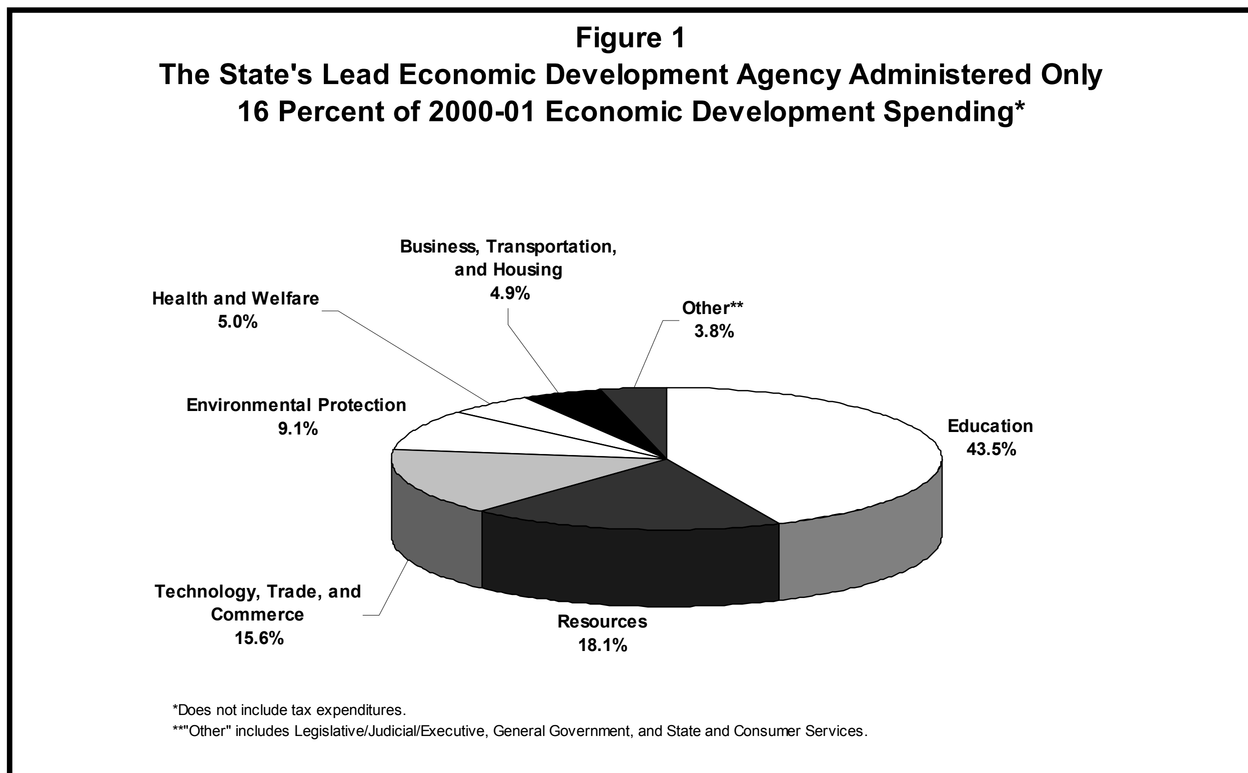
Another challenge is the ability to quantify program goals, which are often less specific than those mentioned in the workforce development example. Identifying an indicator for a less tangible economic development goal, such as creating a better business climate, can be extremely difficult.

KEY FINDINGS AND RECOMMENDATIONS

Finding 1: The State Lacks a Structural Framework for Economic Development Spending

California's economic development spending is scattered across more than two dozen departments, agencies, boards, commissions, and authorities, as well as more than six dozen tax expenditures. The state's primary economic development agency, the Technology, Trade, and Commerce Agency (TTC), administered approximately one out of every 20 dollars of total economic development spending in 2000-01 (4.5 percent), and only 16 percent of on-budget economic development spending (Figure 1). The Department of Education and the California Community Colleges administered the largest share of on-budget spending (44 percent), due in large part to the share of state economic development resources devoted to vocational education and job training programs.

Figure 1
The State's Lead Economic Development Agency Administered Only 16 Percent of 2000-01 Economic Development Spending*



*Does not include tax expenditures.
**"Other" includes Legislative/Judicial/Executive, General Government, and State and Consumer Services.

Fragmentation results from the way economic development policy is developed and from the lack of an overarching strategy to guide state spending and policymaking. Many state economic development programs were created to emulate federal programs, or to implement a "good idea" brought to a legislator with little analysis of how well the program may fit California's overall needs. Other programs were created to take advantage of available federal funding. Since federal funding is nearly always tied to specific activities, program administrators can get locked into activities that may not work in California for fear of losing federal dollars. Once created, programs are rarely eliminated; political priorities, the desire to take advantage of federal funds, and the reluctance of institutions and organizations to change all work to make these programs effectively permanent.

Fragmentation and a lack of coordination also exist between the state and California's large community of local economic development programs, in both the public and private sectors. The vast majority of state spending for economic development, including virtually all spending through the tax code, bypasses the local economic development delivery system. The disconnect between state and local programs weakens the efforts of both. State programs and policymakers fail to receive the full benefit of the information networks and close-to-the-ground knowledge that local program officials have of their own communities. Local programs, on the other hand, may fail to reflect or even be at odds with broader state and regional goals and priorities, such as the competition between localities for sales tax generating retail development.

Recommendation 1: Develop a Unified Economic Development Strategy

As a first step toward increasing accountability and maximizing program effectiveness, the state should establish a comprehensive economic development strategy. An effective strategy should include both long-term and short-term policy goals. It should strive for shared and sustainable growth that broadly distributes the benefits of economic development over time and constituencies. Policymakers should account for the importance of good schools and adequate infrastructure to a strong and competitive economy, as well as recognizing that healthy communities depend on decent jobs, environmental quality, and adequate financial resources to support quality public services. Finally, an effective economic development strategy should consider regional and local needs.

The Governor and the Legislature should work together to coordinate and oversee economic development programs and implement the state's economic development strategy. The planning process should, at a minimum, focus on long-term economic trends, continually review the current status of the state's economy and economic development strategy, analyze which economic development goals are being achieved, and assess what needs to be done to make further progress toward achieving strategic objectives. Consolidating authority for and oversight of economic development programs can help eliminate duplication of effort, increase the "user friendliness" of state programs and services, and provide the Legislature, Administration, and public with one entity to hold accountable for efficient, productive, and cohesive economic development.

Functional budgeting offers a tool for examining state economic development spending. Under the current system, programs with similar goals are administered by a number of different agencies and departments. ***Currently, no single report, document, or data source presents a comprehensive picture of economic development spending.*** Summarizing total state economic development spending in a unified functional budget would highlight economic development as a discrete area defined by broad policy goals. A functional budget, which would be in addition to the annual state budget, would identify the total amount of funds spent both through annual appropriations and tax incentives. This document could help policymakers understand how well dollars are matched to economic development priorities. It may also encourage legislators to prioritize state economic development spending by showing how

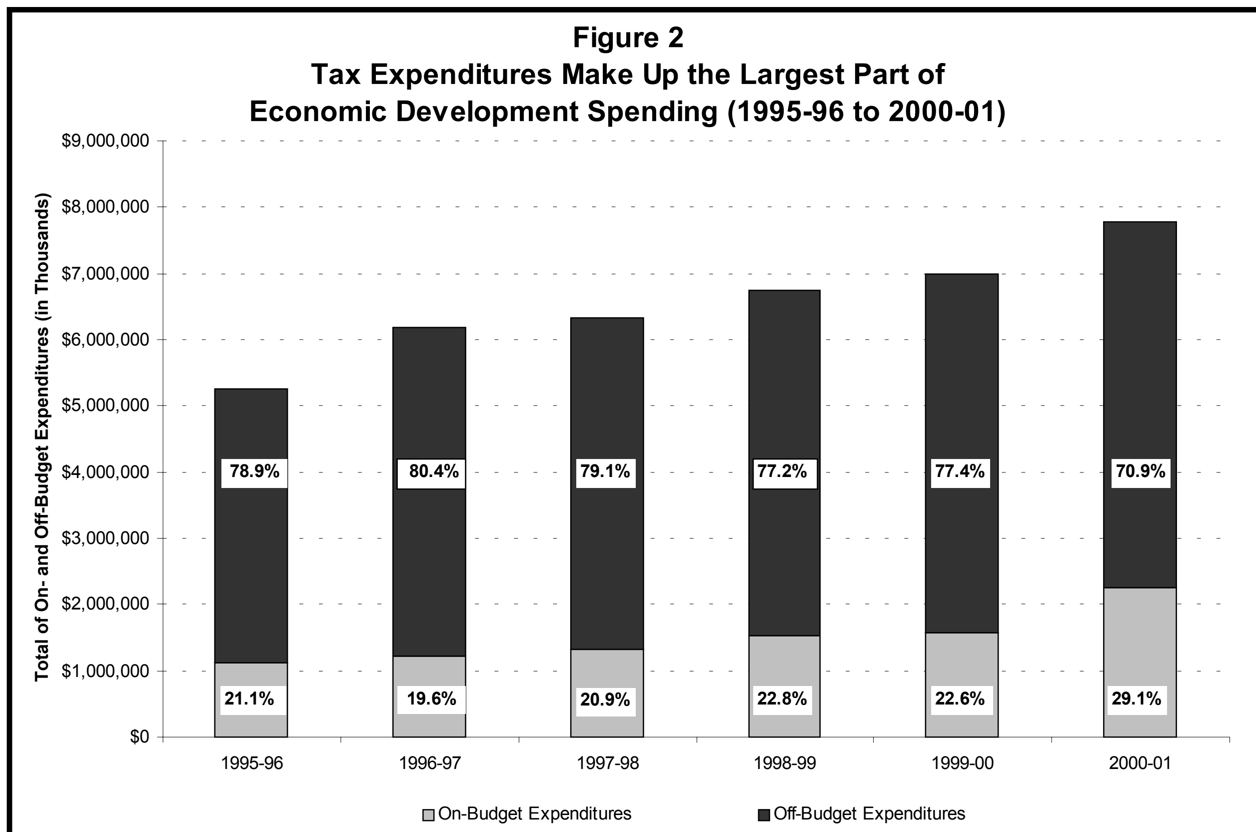
proposed economic development programs fit into existing spending.

Finding 2: Most Economic Development Funds Go to General Support for Business

Economic development accounts for a relatively small share of state spending. During the period examined in this report, 1995-96 to 2000-01, economic development spending increased slightly each year, for a total increase of $2.5 billion (48 percent). In contrast, state General Fund spending increased by $35.5 billion (80 percent). The largest increase occurred in 1996-97, when the total spending (on and off budget) increased by $917 million (17 percent). The growth was primarily attributable to increases in the cost of tax expenditures, particularly costs attributable to the special tax rate for Subchapter S corporations, which rose by $443 million, and a $180 million increase in the cost of the manufacturer's investment credit.

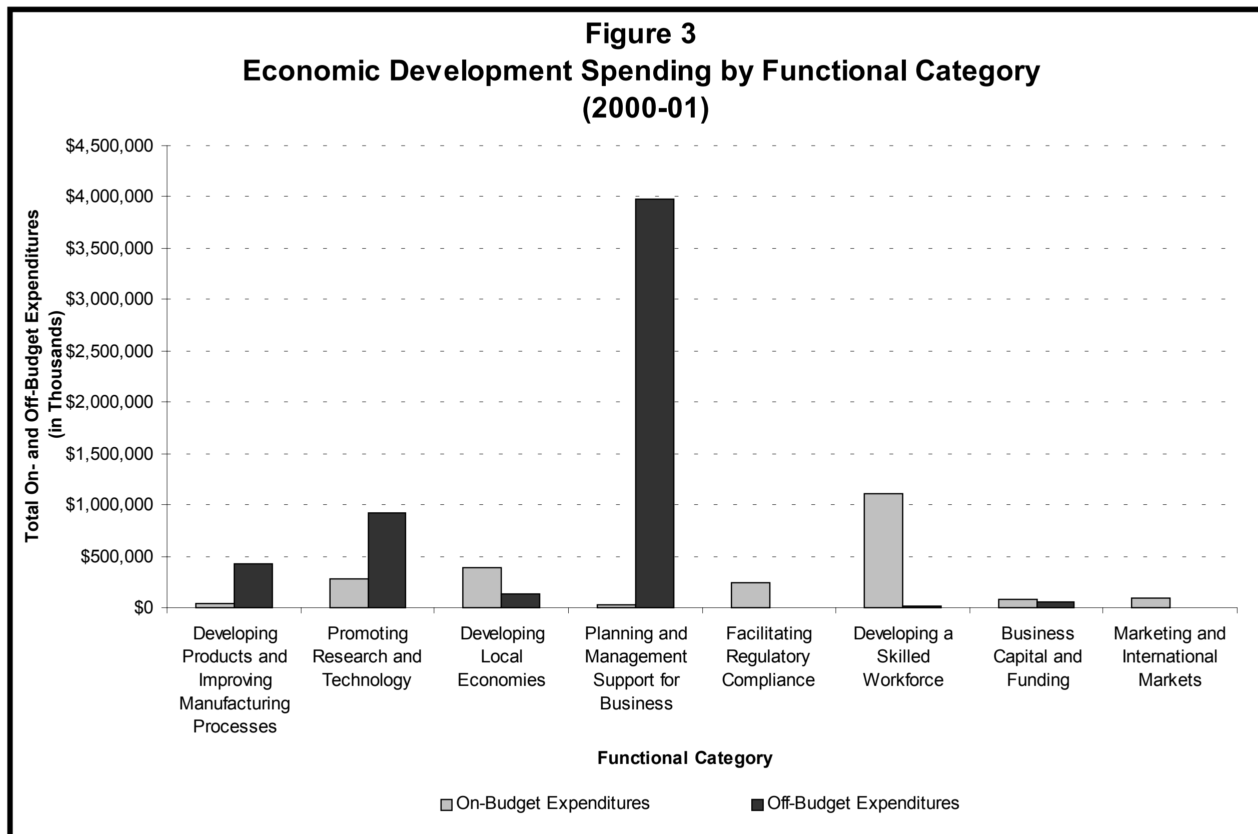
Tax expenditures account for the overwhelming majority of state economic development spending, averaging 77 percent of total economic development expenditures during the years 1995-96 to 2000-01 (Figure 2). The share of economic development spending occurring through tax expenditures actually decreased slightly, from 79 percent in 1995-96 to 71 percent in 2000-01. The total dollar cost of tax expenditures rose from $4.2 billion in 1995-96 to $5.5 billion in 2000-01.

The share of on-budget economic development expenditures increased from 21 percent in 1995-96 to 29 percent in 2000-01, from $1.1 billion to $2.3 billion. The largest increase of $789 million (11 percent) occurred in 2000-01. This increase was primarily attributable to additional spending for the Infrastructure and Economic Development Bank, which received a $204 million increase; energy-related programs, which rose by $209 million; and the Jobs-Housing Balance and Downtown Rebound Programs under the Department of Housing and Community Development, which received a combined increase of $99 million.[6]



Interestingly, the distribution of economic development spending between the functional categories used in this report changed significantly over the period studied. Spending in seven of the eight categories increased between 1995-96 and 2000-01. However, spending for Marketing and International Markets fell by 3.2 percent ($3 million). While the largest dollar increase was in the Planning and Management Support for Business category ($764 million), this category had the smallest ***percentage*** increase (24 percent). The largest ***percentage*** increase was in the Business Capital and Funding category, which more than quintupled (446 percent). Spending in the Developing Local Economies category tripled (229 percent), and spending in the Promoting Research and Technology category more than doubled (129 percent). The Developing a Skilled Workforce category increased by only 36 percent ($294 million).

By far, the largest share of state support for economic development in 2000-01 (52 percent) went to Planning and Management Support for Business (Figure 3). Of the $4.0 billion spent for this function, only $30.4 million went to on-budget program spending. The tax expenditures in this category primarily provide general relief for business and are not targeted to specific policy goals, such as increasing research and development or support for distressed communities.



Promoting Research and Technology received the second largest share of state economic development spending in 2000-01. This category came in a distant second at $1.2 billion, or 15 percent of state economic development spending. The majority of this spending ($916 million) was in the form of tax expenditures.

Developing a Skilled Workforce received the third largest share of state economic development spending in 2000-01, at 14 percent ($1.1 billion). In contrast to Planning and Management Support for Busi-

ness and Promoting Research and Technology, workforce development spending was allocated almost entirely in the form of on-budget program expenditures.

Recommendation 2: Prioritize Economic Development Spending on Areas of Strategic Importance

California's annual spending, both on- and off-budget, for economic development amounts to less than one percent of the state's economy. In light of the limited resources available for economic development, policymakers should reconsider the wisdom of devoting over half of current spending to general support for business. Using the planning process recommended above, policymakers should identify goals and objectives where strategic allocation of resources could have a measurable impact on the state's economy.

Employers cite workforce training as one of the most crucial areas in which the state could assist business development.[7] Yet, workforce development comes in a distant third in this analysis, with 14 percent ($1.1 billion) of total economic development spending in 2000-01. Policy experts note that the Governor and Legislature should work to make workforce development programs more efficient and effective before infusing more funding.

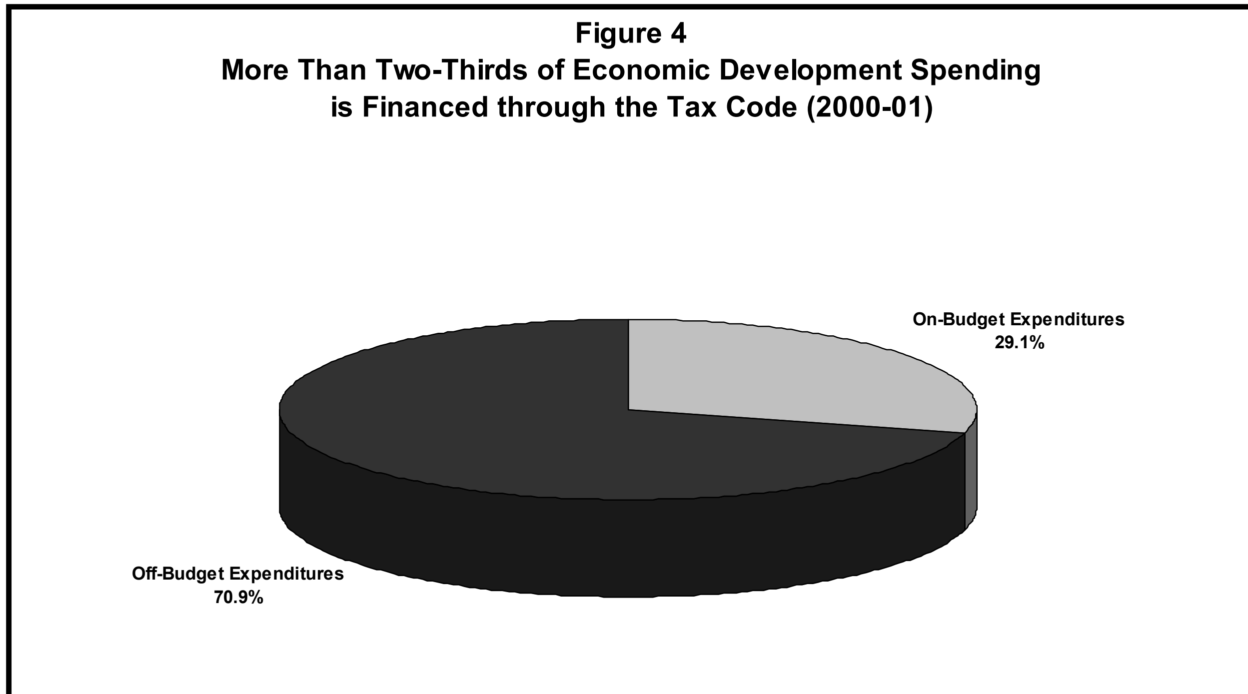
Finding 3: Tax Expenditures Account for the Majority of Economic Development Spending

More than two-thirds (71 percent) of the state dollars devoted to economic development in 2000-01 were spent through the tax code, rather than through individual department budgets (Figure 4). In 2000-01, economic development tax policies cost the state $5.5 billion, $3.2 billion more than on-budget programs. The state has added or expanded more than 25 different tax expenditures since 1990, which reduced state revenues by over $697 million in 2000-01. This is an understatement of the actual cost of these tax expenditures since there is no estimate of the revenue loss associated with many of the state's tax incentives. Tax policies and programs do not receive even the minimal scrutiny of the annual budget process and there is no mechanism currently in place to compare the effectiveness and efficiency of tax expenditures with on-budget expenditures, exacerbating the fragmentation of economic development policymaking.

Recommendation 3: Institute a Systematic Review of Tax Expenditure Programs

The state's large number of tax expenditure programs have been enacted over a number of decades to assist individual industries, encourage certain types activities, or respond to concerns over California's competitiveness with other states as a place to do business. The lack of coordination and oversight discussed above have led to a reduction in the share of state revenues provided through the corporate income tax, which provided 16.8 percent of the state's General Fund revenues in 1978-79, but only 7.6 percent in 2001-02, and created inequities between similar firms and industries. The state's large number of tax expenditure programs also puts the state's tax system, with its relatively high rates but very narrow base, at odds with experts that recommend stable tax systems with low rates and broad bases in order to increase equity, encourage compliance, and reduce the impact of state taxes on economic decisions.

A lack of reporting and evaluation requirements make it impossible to determine whether the state is receiving benefits from tax expenditure programs commensurate with their cost. However, the state does not currently collect even the most minimal information needed to assess the effectiveness of state tax expenditures, such as whether firms that claim state tax credits are increasing or decreasing their



employment or investment within the state. At present, the state's tax expenditure reporting is limited to an accounting of the revenues foregone as a result of specific provisions. At a minimum, the state should require disclosure of the identity of firms receiving tax preferences and the amount of benefit received. A more accountable process would link identified policy objectives with a measurement of the progress made toward achieving these goals and ensure that adequate data is available to assess the cost effectiveness and efficiency of the tax policy as an economic development strategy.

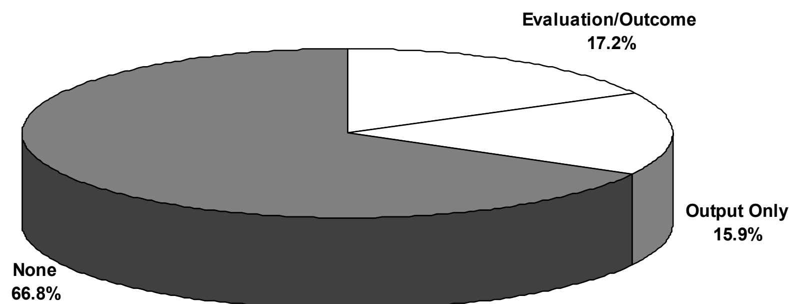
The state should establish a sunset review process to ensure that state resources support programs with the greatest economic return.[8] This process would provide much-needed oversight for tax expenditure programs that remain in effect long after their effectiveness has expired. The state should also evaluate whether existing tax expenditures support current state policy priorities, taking into account the need for sufficient revenues to support broader policy goals such as improving the state's schools and investing in California's infrastructure. In this way, the state could evaluate whether an incentive has achieved program goals and would have the opportunity to modify the incentive to increase its effectiveness.

Finding 4: Most Economic Development Spending is Not Evaluated

On- and off-budget economic development programs cost California $7.8 billion in FY 2000-01, equivalent to 9.7 percent of General Fund expenditures.[9] Despite the fact that the state devotes a significant proportion of its resources to economic development, there is little information available to document whether these programs actually achieve their intended results. This report classified programs as "evaluation/outcome" (17 percent), "output only" (16 percent), or as having no evaluation or review requirements relating to program effectiveness (67 percent). Only 17 percent of 2000-01 economic development spending went to programs with evaluation or outcome-based review. Over two-thirds of economic development spending in 2000-01 went to programs that had no provision for evaluation or review (Figure 5).

While state agencies or departments administer all on-budget spending, these entities often do not

Figure 5
More than Two-Thirds of Economic Development Spending is Not Evaluated (2000-01)



closely oversee or monitor program administration. While many programs require annual reporting to the Legislature, it is difficult to discern whether this reporting actually happens, and, if it does not, whether the programs suffer any consequences.

When economic development spending is broken down by on- and off-budget expenditures, the differences in evaluation requirements are striking. While the majority of on-budget programs are subject to at least output reporting requirements (91.0 percent), the vast majority (90.5 percent) of tax expenditures have ***no*** reporting requirements and/or processes for assessing program effectiveness. Of the few that do, most report only basic data. The lack of reporting makes it difficult for the Legislature, the Administration, and the public to hold programs accountable. It also limits awareness of when program goals or activities need to updated or eliminated.

Programs in the Developing a Skilled Workforce category were more likely to include evaluation requirements than other categories defined in this report. This reflects the fact that these programs are funded almost exclusively through on-budget expenditures and also because of federal reporting requirements imposed as a condition for receiving matching funds. In contrast, expenditures that support Planning and Management Support for Business are primarily tax expenditures. As a result, workforce development funds are subject to annual review and adjustment through the budget process, while policymakers seldom review expenditures for direct assistance.

Recommendation 4: Evaluate Economic Development Spending Based on Outcomes

Evaluation is necessary to ensure that the state is held accountable for the effective and efficient use of public resources, and to provide a context for broader public and legislative oversight. However, in most cases, evaluation requirements amount to very minimal oversight, and tend to measure outputs rather than outcomes.

Policymakers should use outcome measures to evaluate the effectiveness of economic development spending. An outcome-based evaluation process should identify desired outcomes; select measures or

indicators; set standards for performance and outcomes; report results; and use outcome and performance information for planning, managing, and budgeting. A number of states use legally binding performance contracts to guarantee a return on their investment. Contracts can provide a tool for outlining promised outcomes and holding recipients of economic development incentives accountable for the delivery of promised jobs and investment.

Meaningful evaluation of state economic development activities cannot occur without basic data collection. Currently, only a few programs collect the information needed to assess outcomes and efficiency, such as the number of program participants or job placement rate. Even fewer programs regularly make this information available to policymakers and the public. The Governor and Legislature should adopt, as a matter of policy, a requirement that programs collect and report basic data and provide adequate staff and budget resources for the data collection. For programs that already do this, existing data should be analyzed. The coordinating mechanism discussed above could review this data and determine how and whether to revise reporting requirements to be more effective and efficient.

Conclusion

California's current structure of economic development spending is fragmented and lacks a systematic review and evaluation process. As a result, it is difficult, if not impossible, to determine whether the $7.8 billion devoted to economic development in 2000-01, or even the total $39.3 billion since 1995-96, has had a measurable impact on the vitality of the state's economy and the well-being of Californians. Policymakers have a responsibility to ensure that the dollars that go toward economic development are spent wisely; a coordinated economic development strategic plan can help achieve this goal. With a functional budget that requires outcome-based evaluations, policymakers could identify programs with the highest returns and adjust funding accordingly. Reviewing tax expenditures and budget allocations in a single document and planning process would illuminate current spending priorities and focus on whether this funding is being used efficiently to promote California's economic goals. Functional budgeting and outcome-based evaluation could help legislators spend economic development dollars as strategically and effectively as possible. In this manner, the state can help ensure the maximum return on its economic development investments.

Methodology

Maximizing Returns focuses on state spending for activities that foster quality job creation, technological development, a healthy business sector, and a skilled workforce. This report excludes federal expenditures on state and local economic development initiatives, bonds related to economic development issued by agencies outside the budget, and economic development-related spending through quasi-public agencies. Due to the difficulty in obtaining detailed expenditure data, programs administered by the University of California and the California State University are also excluded. Programs were identified through program descriptions in the Governor's Budget, as well as agency and department web sites and conversations with agency and legislative staff. Spending information on programs was compiled from the Governor's Budgets for various years, while tax expenditure information came from the Legislative Analyst's Office, legislative bill analyses, the Franchise Tax Board, the Department of Finance, and the Board of Equalization. Reporting requirements were identified in state law and confirmed wherever possible by program administrators. General research included numerous telephone and personal interviews with program administrators, academic researchers, policy experts, and legislative staff.