



Performance Audit

Performance Measures in Economic Development Programs

Opportunities to enhance transparency and improve processes

October 2, 2014

The Associate Development Organization program provides economic development services tailored to meet local needs. We found that assessing the performance of economic development programs, including the associate development organizations, is hampered by the difficulty in establishing a direct link between economic development activities and employment growth. In addition, some important activities of the development organizations are not readily measurable, while others provide a longer-term benefit not directly related to job growth.

The Legislature and Department of Commerce can make improvements in the existing performance measurement system by aligning performance measurement to leading practices. First, however, they need to clarify the goals of the program in order to ensure that they are measuring the right things.



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Executive Summary

Performance measurement in state economic development programs

The Associate Development Organization (ADO) program was established by the Washington State Legislature in 1985 to deliver economic development services and promote business growth across the state. Through this program, the Department of Commerce (Commerce) manages \$3 million in annual grant support to 34 county-designated ADOs, including economic development councils (EDCs), chambers of commerce, and other organizations. ADOs deliver a diverse array of services, tailoring priorities to local needs.

The Legislature wants to know if the money directed toward economic development has the desired impact. Commerce is required by statute to maintain a system of performance measures focused on ADO outcomes, especially job creation and capital investment, which are widely used metrics for economic development. However, Washington stakeholders and economic developers have found it challenging to report meaningfully on these measures.

Recent concerns about the performance measures, their adequacy, and Commerce's adherence to statutory requirements prompted a legislative proviso that called for a study. The State Auditor's Office decided its Performance Audit division would develop an audit that could address the questions in the proviso.

Our audit asked whether the impact of ADOs on economic outcomes such as jobs and capital investment can be isolated from other factors, let alone measured with certainty. We also wanted to determine whether the performance measurement practices currently used by Commerce align with the intent of state law and with leading practices. Finally, we wanted to develop a list of leading practices in performance measurement that could benefit ADOs and other economic development programs.

Measuring ADO outcomes is virtually impossible because isolating ADO program impact is not feasible

We found it is virtually impossible to measure the impact of ADO services, because it is difficult to isolate them from the effects of other economic development partners and the factors business owners consider when deciding to expand or relocate. Factors beyond the control of economic developers – such as the availability of loans, company sales, inflation rates, and the price of raw materials – all play into business decisions to relocate, expand, or invest capital.

Compounding these challenges, the modest size of Commerce's ADO program compared to Washington's economy makes identifying a meaningful level of impact unlikely. Furthermore, because ADO priorities vary according to local needs, we found some ADOs focus on important activities and services whose long-term nature and indirect effects make performance measurement challenging. Although Commerce made an effort to improve ADO performance measurement, it could not carry out statutory intent to identify impacts, because doing so with certainty is virtually impossible.

Business owners consider many factors when making decisions to relocate, invest or expand



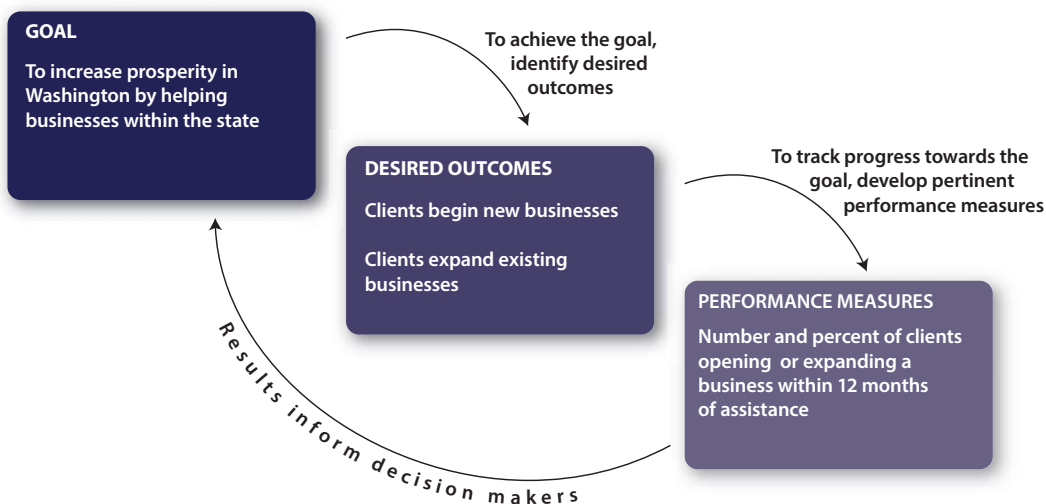
The performance measurement system is not working as intended, and only partially follows leading practices

The law that directed Commerce to set up a performance measurement system to report on impacts also includes provisions meant to support effective analysis and data management. We found that Commerce has been able to craft and track some useful performance measures. However, the system does not fulfill statutory intent to implement an effective performance measurement system because the law is unclear regarding both program goals and Commerce's role.

As a first step, the Legislature and Commerce will need to work together to clarify the statute's stated goals. While the number of jobs created is an important performance measure for an economic development program, it cannot be connected with certainty to the ADO program due to the factors outlined on page 3 above. Other measures of quality and efficiency can provide useful performance information. They include intermediate outcome measures, such as the number and percent of clients expanding a business after assistance, or efficiency measures such as the number of staff hours invested in each project.

The diagram below provides an example of how goals guide the development of outcomes, which in turn drive the performance measures the agency tracks. Once analyzed, performance measures help inform stakeholders about how well a program is doing in delivering the intermediate outcomes which support the overarching goals of the program.

One example of how a clear goal, supported by clear outcomes, can make it easier to develop and apply performance measures






Refining the goals in statute should lead to improved program measures




While we recommend the Legislature establish clear goals for the ADO program, we also recommend that Commerce and the ADOs develop a more robust performance measurement system that better reflects ADO activities and provides the information needed to manage the program. Our report identifies leading practices that could be applied to improve the nature and quality of their metrics. These leading practices served as our criteria when we examined Commerce's current practices.

We also recommend the Legislature reform reporting requirements so it receives the information needed to make decisions while reducing the effort required from Commerce and ADOs. To make it easier for ADOs to provide this information, Commerce should follow applicable leading practices.

AUDIT ISSUES

-  Statutory language concerning ADO performance goals is unclear
-  Required reporting only partially reveals successes and challenges in the program
-  A key outcome – job creation – is not actually measurable in a scientific way

RECOMMENDATIONS

-  Review and revise statute to clarify goals for the ADO program
 -  Reform reporting requirements
 -  Develop measures based on clarified program goals and leading practices
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Introduction

To grow Washington's economy, state-funded economic development programs carry out a variety of activities to foster business activity. The Department of Commerce (Commerce) manages many such programs, including those designed to support infrastructure loans, export assistance, workforce training, and grants to local entities known as associate development organizations (ADOs).

Created by state leaders in 1985, the ADOs provide assistance to businesses and cultivate local economic development efforts. As the largest recipient of state general fund dollars for economic development involving direct business assistance, the ADO program has received attention from legislators and others who hope to learn more about its effectiveness and performance. Statute requires Commerce to contract with county-designated organizations, classified as ADOs, but does not fully specify how a county should choose its ADO. Each of Washington's 34 ADOs, which collectively serve all 39 counties, is governed by an independent board. Exhibit 1 shows which ADOs serve multiple counties.

Exhibit 1 – Associate development organizations serve every county in Washington



Note: Profiles for Grant, Pierce and Skamania counties begin on page 33.

Associate development organizations deliver a diverse array of economic development services tailored to local needs

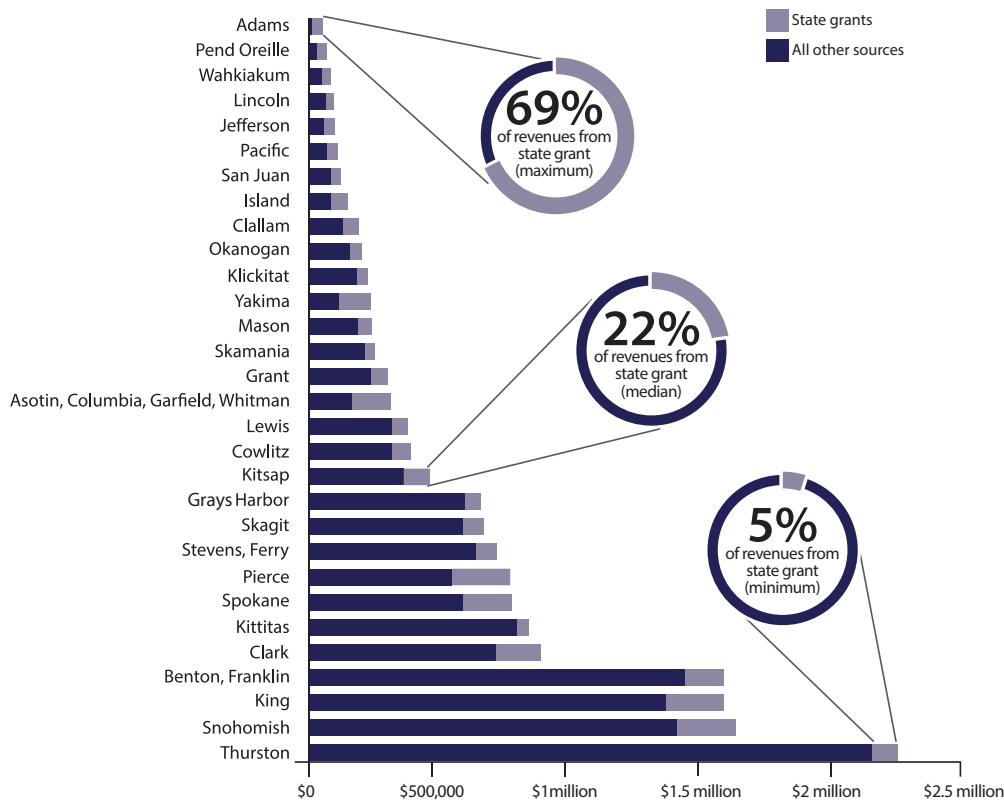
Under state law, ADOs are required to work in two broad areas: direct assistance to companies and support for regional economic research and planning efforts. Some ADOs also provide services not outlined in statute, including business and infrastructure loans, small business development, and contracted services for local governments. They also act as resource hubs, connecting businesses with local governments and institutions such as cities, ports, worker training programs, and community and technical colleges.

Each ADO carries out local priorities, which differ according to geographic location, industry focus and rural/urban composition. While most ADOs are county economic development councils (EDCs) or associations, a minority are non-profit organizations or ports. The three ADOs profiled in **Appendix C** – Grant County EDC, Skamania County EDC, and the Economic Development Board for Tacoma–Pierce County – illustrate the diversity of program activities.

They also vary in size and source of funding. Except for ports, which deliver a range of services not offered by other ADOs, 2012 revenues ranged from about \$55,000 to over \$2 million. State grant funds – totaling about \$3 million annually – contributed varying amounts to ADO budgets. A few ADOs relied on the state for more than half of their funding, while others, particularly those in urban areas, received more support from other sources. **Exhibit 2** shows the range of overall budgets and state funding of ADOs, with the exception of ports.

Exhibit 2 – Smaller ADOs generally rely more on state grants than larger ADOs

ADO revenues in 2012. Other funding sources include federal, state and local funds, and private support



Note: Ports that serve as ADOs (serving Chelan, Douglas, Walla Walla and Whatcom counties) are excluded because their annual revenues are much higher than typical ADOs.

Commerce administers about \$3 million in state grant support to ADOs annually

Commerce distributes about \$3 million in grant funds to ADOs every year to help support their activities. Under the law, ADOs serve as the state's primary means of delivering locally focused economic development services. State law outlines the scope of activities ADOs must deliver under the grant agreements, but allows the ADOs to determine how they prioritize these activities.

State law outlines specific requirements for ADO performance measures

In return for an investment of state dollars, state leaders have expected the ADO program to produce new jobs and capital investment. Under state law, Commerce must use performance measures to track ADO progress in achieving state grant deliverables, set annual performance targets in their grant agreements, and report on ADO outcomes every two years.

The law also includes provisions to support effective data management and analysis. Requirements include using a web-based information system to collect and store performance data, applying data definitions, and encouraging performance measure consistency across regions to make a statewide analysis possible.

While the law is very specific in some regards, it also grants Commerce and the ADOs freedom to develop performance measures to best suit their needs. The only measure specifically required is ADO impact on employment, but statute does suggest a number of outcomes that may be reported in the biennial report, with an emphasis on jobs.

State leaders have shown ongoing interest in ADO performance

In recent years, statutory changes have reflected legislative interest in the question of ADO impact and a desire to develop a performance measurement system that could help identify this impact. Significant changes include the following:

- **2007:** New legislation requires ADOs to set performance measure targets, and Commerce must report to the Legislature on ADO outcomes. Specific outcome measures are required.
- **2012:** Changes to the law allow ADOs and Commerce greater freedom regarding outcome measures, but require each ADO to “show the contracting organization’s impact on employment” by submitting economic data to Commerce. At this time, requirements relating to data quality and management were added.

Statutory requirements for ADO performance measurement

1. ADOs commit to targets for performance measures

Every two years, Commerce works with each ADO to develop these performance targets, also referred to as performance measures in statute, as part of the contract development process. The law outlines specific penalties and potential loss of funding if an ADO does not hit at least half its targets.

2. Commerce reports on ADO outcomes

Every two years, Commerce must report to the Legislature on ADO outcomes. Past reports have summarized ADO outcome measures – number of jobs created or retained, capital investment leveraged, and number of firms assisted.

3. ADOs report six things to Commerce annually

The law requires that ADOs report the following annually to Commerce:

1. Current employment and economic information for the community or regional area produced by the Employment Security Department
2. The net change from the previous year’s employment and economic information using data produced by the Employment Security Department
3. Other relevant information on the community or regional area
4. The amount of funds received by the contracting organization through its contract with the Department of Commerce
5. The amount of funds received by the contracting organizations through all sources
6. The contracting organization’s impact on employment through all funding sources

Source: RCW 43.330.082(1)(a)

In 2013, the Legislature again expressed its concern about performance measurement and the ADOs, with some legislators saying they lacked information on the return on investment for the program. Lawmakers considered reducing the ADO grants, but ultimately maintained ADO funding. Instead, they directed the Joint Legislative Audit and Review Committee (JLARC) to conduct a study of the feasibility of identifying ADO outcomes apart from general economic trends.

At the time, the State Auditor's Office was considering a similar performance audit of economic development programs. After consulting with JLARC leadership about the potentially parallel studies, it was agreed that a single performance audit would be conducted by the Office, incorporating the questions outlined in the legislative proviso. The request to JLARC is summarized and discussed in **Appendix D**.

Audit objectives

We focused our audit on Commerce's management of performance measurement for the ADO program from July 2012 through December 2013. We included performance measures, data and documents for all of Washington's 34 ADOs in our analysis. The audit sought to answer the following questions:

1. Is it technically feasible to isolate the ADOs' impact on economic outcomes?
2. Are the performance measurement practices used by the Department of Commerce to manage ADO contracts aligned with statutory intent?
3. Are the performance measurement practices used by the Department of Commerce to manage ADO contracts aligned with leading practices?

A primer on performance measurement and leading practices

Performance measures are widely used within government and private organizations to provide information about an organization’s progress. They can support decision making at all levels – providing relevant information for managers and front-line staff, as well as top management and external decision-makers.

Within an organization, a well-rounded set of performance measures is typically balanced across different categories. For example, managers may wish to use performance measures to better understand workloads, productivity, output levels, and overall outcomes. For this reason, they are often classified based on which aspect of a process they measure. **Exhibit 3** lists commonly used types of measures. We developed example measures appropriate for economic development programs using the references listed in Appendix C.

Exhibit 3 – Performance measures appropriate for economic development programs

Type	Description	Examples for economic development programs
Output	The number of units produced or delivered	Number of trainings delivered Number of clients assisted
Quality	The percentage produced or received by customers that meet standards or specifications	Percentage of product or service delivered on time Percentage of assistance that was accurate Percentage of customers satisfied
Efficiency	The unit cost to produce or deliver a product or service	Cost or staff hours per client served Cost or staff hours per project or class
Intermediate outcome	Outcomes expected to lead to the desired results, but which are not in themselves the ultimate goal	Number and percent of clients expanding a business after assistance Number and percent of clients still in business two years after assistance
Outcome	Measures the desired results – conditions important to program customers and to the general public	Improved operations: Number and percent of clients that attributed solving a significant operational problem to program assistance within 12 months after assistance Increased sales: Number and percent of clients that attributed increased sales revenues or profits to program assistance Jobs added: Number of additional full-time employees hired by clients, for which the assistance played a significant role in the increase

For government programs, performance measures can also play a role in informing external decision-makers and the public about services provided in return for tax dollars. They provide a snapshot of capabilities and help track progress towards goals. Typically, measures reported externally are focused on program outcomes.

While performance measures play an important role in evaluating performance, they also have their limitations. Numbers can never fully tell a story – they can tell us what happened, but they usually cannot tell us why things happened. Performance measures work best when accompanied by descriptions and explanation of work accomplished. Descriptive information can help decision-makers, both internal and external, determine what to do next based on current performance.

The value of a performance measure system also depends in part upon the quality of data tracked. In order to support decision making, information should be reasonably complete and correct. Organizations typically employ several strategies for this purpose. These include developing clear definitions for measures, training users on how to enter performance data, and using an information system to collect and store data.

Developing sound performance measures requires the consideration of possible challenges

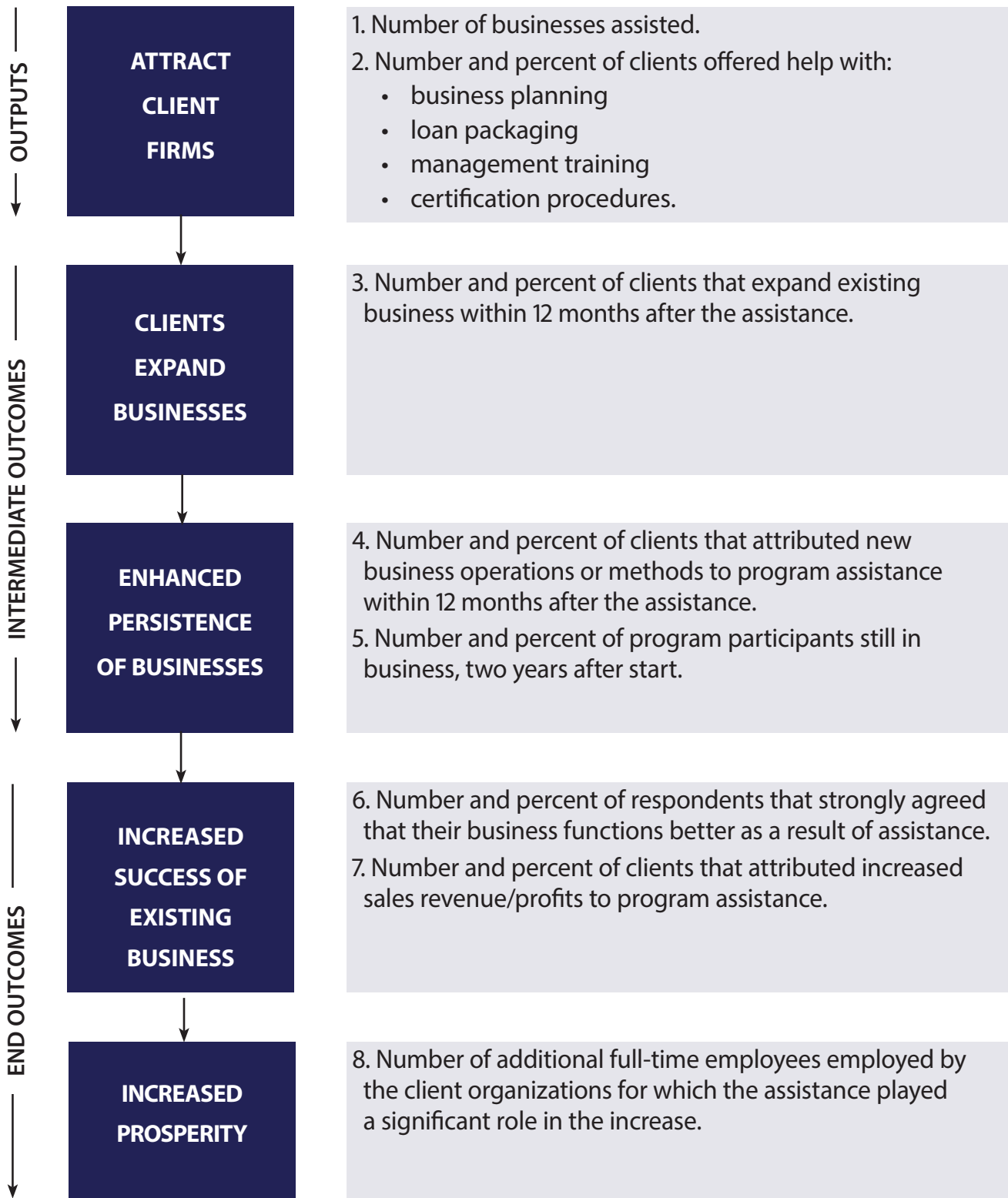
While performance measurement offers benefits, users should also consider potential challenges. Such considerations include the cost of tracking performance, as developing and managing performance measures requires staff time and organizational resources. Another challenge is that managing too many measures can distract users from the most important information, making it difficult to draw conclusions about performance.

To address these challenges, organizations should limit the number of measures to a key few, focusing on what matters most. While there is no agreed-upon number of measures an organization should have, experts recognize the difficulty of managing more than 10 to 15 performance measures.

Performance measures cannot always provide answers that decision-makers want. While external stakeholders often want to know about a program's overall impact, in many cases program outcomes depend on factors beyond a program's control. In such cases, scientists may be able to use statistical methods to determine program impact. But such methods are expensive, and cannot provide an answer in every case.

Despite the benefits of performance measurement, it should not be considered a one-size-fits-all management tool. For some activities, developing useful performance measures is difficult, particularly when it comes to outcomes. For instance, long-range planning efforts and research activities often do not yield end outcomes for many years, and can depend on collaboration by a number of participants. Similarly, performance measures do not provide much useful information for programs expected to result in a small number of important outcome events. In cases where an activity does not lend itself to measuring end outcomes, experts recommend focusing on intermediate outcome measures, conducting periodic program evaluations, and reporting descriptive information relating to key projects. **Exhibit 4** on the following page shows an example of an outcome sequence chart suitable for a business assistance program.

Exhibit 4 - An example of an outcome sequence chart for a business assistance program



Source: Adapted from Urban Institute: *Candidate Outcome Indicators: Business Assistance Program..*

When important outcomes are difficult or impossible to quantify, improper application of performance measures can skew organizational priorities. An organization that focuses its measures on lower priority activities – simply because they are easier to measure – risks focusing excessive resources on these activities, rather than focusing resources on the highest priorities. To address this challenge, experts recommend other approaches, such as descriptive reporting and in-depth evaluations.

Leading practices

We compiled leading practices, which are grouped into four phases – preparing to develop measures, developing the measures, managing the measures, and reporting on performance. These leading practices generally coincide with statutory intent to develop an effective performance measurement system supported by high-quality data management. Highlights from these leading practices are presented below.

When **preparing to develop performance measures**, an organization should establish clear program goals so it knows what to measure. And since performance measures may not be a good fit for every activity, the organization should also determine if performance measures are the right approach. Finally, if users will want to isolate program impact, separate from other factors, the organization should use appropriate techniques to decide whether the program’s contribution is measurable.

When **developing a performance measurement system** that effectively informs managers and stakeholders, an organization should in particular focus on three leading practices. First, measures should be aligned with program goals. Second, measures should be balanced across several types, to include measures reflecting efficiency and quality of work, as well as outputs and outcomes. This allows users to gain a clear picture of organizational performance. Third, measures should be clearly defined, so that different users enter data the same way and everyone understands what is measured.

A number of leading practices relate to **managing a performance measurement system**. Key among these are strategies for ensuring data is of sufficient quality to support its use to inform decision making. Providing staff that manage and use measures with training and guidance is also important.

When **reporting on performance**, an organization should assure that the report is user-friendly, clear and concise. Along with performance data, the report should include the information necessary to help users better understand the measures. This includes explanatory information, any data limitations, and definitions used. Additionally, an organization should estimate its degree of influence on outcome measures (low, medium or high). And if some activities are not a good fit for outcome measures, the organization should publish descriptive information relating to key projects.

Recommended practices for developing program goals

- Identify program customers, and focus on how program services affect both specific customers and the public at large
- Use descriptive terms rather than quantitative terms, to define a stable objective that will not change from year to year
- Develop goals that:
 - Include both intermediate and end outcomes
 - Address both the quality and efficiency of service delivery
 - Minimize negative effects of the program. For example, a goals statement for a transportation program could include the words “to minimize air pollution.”

Exhibit 5 includes ten steps that can help guide the development of any performance measurement system.

Exhibit 5– Steps toward a successful performance measurement system

Step	Why it matters
Establish clear program goals and outcomes.	Serves as the starting point for developing useful measures.
Determine whether outcome measurement is appropriate.	Helps managers decide if other types of evaluation are needed.
Determine whether impact is measurable, if applicable.	Helps stakeholders have realistic expectations about evaluating the program.
Align measures to program activities and goals.	Ensures that what counts most is measured.
Balance measures across categories.	Helps tell the whole story of performance, including how well and how efficiently services were delivered.
Clearly define measures.	Helps support a clear understanding about what the measures represent.
Ensure data is of sufficient quality.	Enables meaningful analysis to inform decision-making.
Use information systems to manage data.	Supports higher-quality data entry, storage, management and analysis.
Provide training and guidance to staff.	Provides staff with knowledge needed to develop an effective system.
In external reports, include explanatory information, statements regarding any data limitations, and key findings.	Helps readers understand the context for the performance measures, and get a clear picture of organizational performance.

Audit Scope and Methodology

We evaluated whether isolating impacts of the ADO program is feasible

To determine whether the ADO program's impact is measurable, we interviewed subject matter experts and conducted a literature review on program evaluation methods. We identified the requirements needed to convincingly demonstrate a program's impact. We evaluated whether these requirements are currently met, and also whether these requirements could potentially be met.

As part of this evaluation, we analyzed the potential for identifying ADO program impact on jobs. We ran a statistical test known as a power analysis, based on performance measure data from the ADOs, and on jobs data provided by the Employment Security Department. We did not evaluate the feasibility of identifying ADO impact on capital investment because gathering necessary data was impractical. We also did not evaluate ADO performance, as such an evaluation was not within the audit scope.

We compared program activities with leading practices

To determine the extent to which Commerce uses leading practices and carries out statutory intent, we compiled a list of leading practices by reviewing expert recommendations, audit reports, and reports from leaders in Washington economic development. We also analyzed state law, performance measure data, and agency performance measure documents. Then we compared Commerce's performance measurement practices with those leading practices we were able to evaluate, based on available information.

We contacted nine ADOs to learn more about their activities, priorities and views on performance measurement. We also discussed ADO performance measures with stakeholders from the Legislature and Governor's Office, as well as city and county partners of ADOs.

To answer the questions directed to JLARC in 2013, we evaluated ADO contracts and performance measure documents. **Appendix D** provides the results of this analysis. We provided a draft report to Commerce, and comments provided by agency management were incorporated into this report as appropriate.

Audit performed to standards

We conducted this performance audit under the authority of state law (RCW 43.09.470), approved as Initiative 900 by Washington voters in 2005, and in accordance with Generally Accepted Government Auditing standards (December 2011 revision) issued by the U.S. Government Accountability Office. 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Next steps

Our performance audits of state programs and services are reviewed by JLARC and/or by other legislative committees whose members wish to consider findings and recommendations on specific topics. Representatives of the State Auditor's Office will review this audit with JLARC's Initiative 900 Subcommittee in Olympia. The public will have the opportunity to comment at this hearing. Please check the JLARC website (www.leg.wa.gov/JLARC) for the exact date, time, and location. The State Auditor's Office conducts periodic follow-up evaluations to assess the status of recommendations and may conduct follow-up audits at its discretion.

Audit Results

1. Commerce cannot measure ADO impact

Question: *Would it be technically feasible to isolate the ADOs' impact on economic outcomes?*

Answer: *No. It is not feasible to identify the ADO program's precise impact on jobs.*

Experts caution that conducting a program evaluation is not always practical, particularly for smaller programs. This is because measuring outcomes in economic development presents a number of challenges, including:

- Economic developers often collaborate with other entities to carry out a project, making it difficult to assign associated outcomes to any one organization.
- The overall change in jobs resulting from economic development efforts can rarely be counted. Rather, only jobs added in connection with assistance are reported. In a case where added jobs displace other jobs at a competitor business, reported job growth does not tell the full story.
- Efforts often take years to reach fruition, limiting the value of measures reported quarterly or annually.
- Data is often self-reported, as economic developers in many cases must rely on uncorroborated figures from assisted companies.

But the overarching problem facing those who would measure economic development outcomes is that of separating program impact from what would have happened without intervention. Factors beyond the control of economic developers influence project success. Examples include the availability of loans, company sales, inflation rates, and the price of raw materials. These all influence business decisions to locate, expand, or invest capital. In the end, economic developers act as catalysts for economic growth, rather than directly creating jobs and investment.

Washington economic development stakeholders call this the “but for” question. This refers to the question of whether growth would have occurred, but for assistance from an economic development program. This is the question that state leaders have wanted to answer for economic development programs, including the ADOs.

Our power analysis confirmed that identifying the ADO program's impact on jobs is not feasible

Based on a literature review and expert interviews, we concluded that answering the “but for” question is extremely difficult. To address the challenges inherent to this problem, evaluators would need large amounts of data. Such data are currently unavailable and would be prohibitively expensive to collect. Compounding these challenges, the modest size of Commerce's ADO program, compared with Washington's economy, makes identifying a meaningful level of impact unlikely.

Aside from the difficulty of establishing the effect of ADO activities on jobs, the effects of some ADO activities are not readily measurable. For example, some ADOs devote considerable effort to preparing their communities for long-term growth by focusing on such things as workforce development, land use planning, and the regulatory environment. However, outcome measures provide little value when applied to such long-range planning efforts. For this reason, other evaluation methods would be more appropriate for these activities.

2. The performance measurement system is not working as intended

***Question:** Are performance measurement practices used by the Department of Commerce to manage associate development organization contracts aligned with statutory intent?*

***Answer:** Partially. Commerce complied with some statutory requirements in the establishment and management of the ADO performance measurement system. However, Commerce could not fully carry out the intent of the law because the law is not entirely clear, and because identifying ADO impact on employment, as we discussed in Question 1, is virtually impossible.*

The Legislature does not receive the information it needs to assess ADO program performance

Based on our review of statute, we concluded that lawmakers' intent was to establish a performance measurement system with two important characteristics. First, they wanted a system that would report on ADO impacts, particularly relating to job creation. Second, they wanted a system that could provide reliable information to support decision-making.

Commerce was unable to report on ADO impacts

So as to receive information on ADO impacts, legislators included provisions in state law requiring reporting on impacts and results. These provisions include the following:

- ADOs must report their impact on local employment to Commerce.
- ADOs may report their impacts on other outcomes, such as capital investment and exports.
- Commerce must periodically provide the Legislature with a report on the "performance results" of the ADOs.

To fulfill these requirements, Commerce gathers ADO data, and provides the Legislature with a report every two years that summarizes:

- The total annual number of businesses ADOs helped recruit, retain, expand or start up, as well as the number of related jobs and amount of private investment.
- The percentages of performance targets reached for each ADO.
- Case studies that highlight success stories.

Although this information responds to some aspects of statutory requirements, it does not adequately fulfill statutory intent to “show the [program’s] ... impact on employment.” Tables in the report show the number of contacts and resulting jobs and investment, but there is no information on the degree of impact the ADOs had on these outcomes. As discussed in our answer to question one, assessing the degree of influence of economic development efforts such as those provided by ADOs on employment is problematic if not impossible, making this provision of the law difficult to fulfill.

The performance measurement system does not provide reliable information needed for decision-making

To help create a system providing reliable information for decision-making, legislators included several statutory provisions relating to data management and analysis. These include the following:

- ADOs should use measures that are “consistent across regions to allow for statewide evaluation.”
- Specific data definitions must be developed in the contracting process

To fulfill these requirements, Commerce used consistent outcome measures across all ADOs, but ADO target measures varied greatly. Reporting on targets is also of questionable consistency, since not all targets are clearly defined and ADOs have latitude to choose which measures they will track and report on. In addition, the targets are mostly measuring outputs, such as the number of business contacts made, which provides little information about the quality and efficiency of ADO work. All in all, the system may not be fully measuring ADO effectiveness, and it is not providing reliable information to support decision-making as lawmakers intended.

The system does not fulfill statutory intent to produce reliable information for two reasons. First, program goals, as laid out in statute, are not entirely clear. The law suggests outcome measures, such as employment impact and capital investment, which implies goals without stating them clearly.

Second, statute is not clear regarding Commerce’s role. While Commerce is charged with managing ADO grants and gathering performance measure data, statute does not clearly outline whether it is Commerce’s duty to manage ADO contractor performance or to simply distribute grant funds. While the purpose of a performance measurement system is typically to inform management decisions aimed at continuous improvement, Commerce managers told us they do not believe this is their role because each ADO answers to a local board. Further, Commerce has only limited ability to determine which organizations receive grant funds, as ADOs are selected by counties.

The current performance measurement system has produced some undesirable results

Some undesirable consequences have resulted from the current state of ADO performance measures. First, although the measures provide only limited value and are not serving their intended purpose, Commerce and ADOs must devote staff time to developing and managing the measures. As Commerce has undergone significant staff reductions, with more being considered for next biennium, time devoted to ADO performance measures has a real effect on Commerce staff capacity – taking time away from activities that could potentially provide more value. For instance, the requirement for ADOs to report annually to Commerce on overall employment levels for their counties does not provide useful information about ADO performance. While based on readily available data from the Employment Security Department, assembling these reports requires additional effort for ADOs as well as Commerce, time that might be better spent on economic development activities.

Second, ADO reporting targets may be inappropriately skewed towards lower-priority activities, undertaken only for the purpose of hitting a target and avoiding a penalty. Under ideal circumstances, focusing activities to drive performance measures would be desirable, as the measures would fully and accurately reflect organizational priorities. The pressure to report more jobs can lead an ADO to neglect higher-priority activities, a situation in which the performance measures may distract ADOs from focusing resources where they are most needed.

Finally, the current performance measures may skew perceptions of what ADOs do. ADO outcome measures – jobs and capital investment – may lead stakeholders to think of ADOs only in these terms. Only a subset of ADO services can be tied directly to jobs and capital investment, and as our analysis has shown, even then the relationship between ADO activities and these outcomes is uncertain.

Modest amendments to statute could yield more and better information for decision-makers

In spite of the challenges in providing useful information on ADO performance, improvements can be made to the current system. The Legislature should amend statute to provide more guidance on the information it needs to assess ADO program performance without overburdening Commerce and the ADOs. Important areas to focus on include:

- Identifying program goals, which will help clarify what performance measures are most useful
- Distinguishing between performance measures, which provide useful information to decision makers, and targets, which are contractual obligations
- Limiting reporting to information that is useful for assessing ADO performance
- Balancing performance measure types to include efficiency measures and intermediate outcomes

3. The performance measurement system is partially aligned with leading practices

Question: Are performance measurement practices used by the Department of Commerce to manage associate development organization contracts aligned with leading practices?

Answer: Partially. Commerce has applied several leading practices, particularly in its efforts to define measures and report on the program. However, we found several areas where additional improvements could be achieved if leading practices were followed more closely.

Despite the limitations on measuring impact, performance measurement can still improve transparency for the ADO program. The following sections compare Commerce’s practices with leading practices we compiled based on recommendations from experts. We identified these leading practices with the ADO program in mind, but they can be applied to other economic development programs as well. Exhibit 6 highlights our assessment of the ADO program when compared with leading practices in performance measurement. See page 13 for more information about leading practices.

Exhibit 6 – Does Commerce follow leading practices in its performance measurement of the ADO program?

Leading or recommended practices	ADO program
Prepare to develop performance measures	
Establish clear program goals and outcomes	ADO goals in statute are unclear
Determine whether outcome measurement is appropriate	Outcome measures are not appropriate for ADOs’ long-term planning activities
Determine whether impact is measurable, if appropriate	Measuring ADO impacts scientifically is virtually impossible (See the results for Question 1 for more information.)
Develop performance measures to align with program goals	
Align measures to program activities and goals	While measures are aligned with program activities, outcome measures reflect only some of the ADOs’ work
Balance measures across categories	Measures do not inform users about the quality or efficiency of work
Manage performance measures	
Clearly define measures	Some measures were well-defined, but ADOs did not consistently use definitions
Ensure data is of sufficient quality	Data quality checks were conducted on a limited basis
Use information systems to manage data	Information systems were not used consistently for data management
Provide training and guidance to staff	Commerce provided only limited guidance to employees implementing performance measurement
Report on performance measures	
External reports should contain:	The biennial performance report presented information to support transparency and decision-making, including:
<ul style="list-style-type: none"> • Explanatory information • Statements regarding any data limitations • Key findings, including both “success” and “failure” stories 	<ul style="list-style-type: none"> • Explanatory information • Statements regarding data limitations • Success stories, but no failure stories

Sources for leading practices: Hatry, H. P. (2006). *Performance Measurement: Getting Results*, 2nd ed. Washington, D.C.: The Urban Institute Press; and auditor-developed from additional research.

Preparing to develop performance measures:

What we found

To design and implement a successful performance measurement system, leading practices recommend that stakeholders first define the goals of a project or program (see the Performance Measurement Primer in Appendix C), and consider what kinds of outcome measures are possible and useful. In the case of economic development, an overarching goal might be “increased prosperity across the state facilitated by the ADO program.” The related desired program outcomes might include “new businesses relocate to Washington” or “higher wage jobs created in rural regions.” The performance measures that help stakeholders gauge the success of their program activities in support of these outcomes might include “number of business start-ups contacted” or “people completing technical training courses.”

Commerce’s ability to set clear ADO goals was limited by wording in statute

Program goals, as laid out in statute, are not entirely clear (see page 18). When ADO grant funding was increased in 2007, the Legislature stated its intent to increase service effectiveness, efficiency and outcomes. As written, the law suggests certain outcome measures: the related goal is implied but not stated clearly. For example, statute requires ADOs to report on employment impact, suggesting that jobs are a program goal.

We found that Commerce used outcome measures suggested in statute: the number of jobs created or retained, the number of firms assisted, and the amount of private investment generated. Commerce also developed a strategic goal for the program: to “retain, grow and attract businesses by improving and communicating Washington’s competitive advantages.”

Outcome measures are not appropriate for certain activities

Some required ADO activities are not closely aligned with these suggested outcome measures. While some types of direct assistance to businesses can result in the outcomes suggested in statute, the law also requires ADOs to deliver services that do not immediately result in these outcomes. Such potentially important services include collaborating with other entities to carry out long-range planning efforts, participating in regional economic research, and marketing the state to companies that are considering Washington as a location.

We found that Commerce did report on such activities in its most recent report to the Legislature, summarizing the number of engagements with ADO partners and the number of community forums attended by ADOs. This report also included descriptive information about workforce planning efforts by an example ADO.

Measuring ADO impacts scientifically is virtually impossible

This issue is discussed at length in question one on page 17.

Developing performance measures: What we found

Agency staff reported that over the past few years, Commerce has redeveloped and improved its performance measurement system. When new requirements went into effect in 2012, Commerce assigned an additional full-time employee to develop and improve ADO performance measures, even though operating funds for the Business Services Division had recently been cut. Commerce also assigned a specialist to manage the web-based information system used for performance data.

The two employees expended considerable effort trying to improve the system. They clarified definitions for some measures and traveled around the state to individually train ADO staff on data entry in the new web-based system. Overall, the system has moved closer to leading practices, and ADOs have told us they are happy with the improvements.

However, the performance measurement system is not fully aligned with leading practices. While it is not feasible for the program to report meaningfully on its impacts separate from outside factors, it is possible to improve the performance measures both to allow for analysis and so users can better understand ADO progress.

Outcome measures reflect only some ADO activities

As leading practices recommend, Commerce made an effort to align measures with activities outlined in statute and to develop outcome measures suggested in statute. Working with Commerce, each ADO developed 15 performance measure targets spread across four categories of activity. However, 15 may be more than is needed to track performance and, given the associated costs, Commerce could potentially maintain an effective performance measurement system based on fewer measures. Additionally, the outcome measures – number of jobs, private capital investment, and number of firms assisted – did not reflect all ADO activities because some ADO activities, such as capacity building and long-term planning, are difficult to track using outcome measures.

Measures do not inform users about the quality or efficiency of work

Balancing measures across categories – such as efficiency, quality, outputs and outcomes – is a leading practice. We found the ADO measures consisted of only output and outcome measures. In other words, using only these measures, a user can understand how much work the ADOs did, as well as associated outcomes, but lacks information on how well or how efficiently ADOs delivered services.

Managing performance measures: What we found

To make meaningful analysis possible across a diverse array of participating groups, performance measures must be clearly defined and consistently employed. In the case of the ADO program, state law states that ADO performance measures “should be consistent across regions to allow for statewide evaluation.” We found that while the same outcome measures were used across all ADOs, other measures varied considerably. This variation across ADOs makes comparisons difficult and created problems in using the information system set up to track performance measure data.

ADOs did not consistently use definitions

Once a balanced set of measures is developed, they should be clearly defined so that staff enter data consistently. In 2012, Commerce staff worked with ADO representatives, legislative staff, and others to come to consensus on what definitions would be used for number of jobs added, private capital investment, and number of firms assisted. The committee produced a document outlining clear definitions for outcome measures, which is now in use.

However, Commerce could improve the use of defined measures in two ways. First, insist the ADOs use the outcome definitions already in place. We found that some ADOs continued to enter outcome data that was not consistent with definitions. For instance, some jobs were reported as created before a company added them to payroll. In other instances, public loan funds awarded by the ADO were reported as private capital investment.

Second, ensure that all the measures are clearly defined. We found that only outcome measures are well defined, while the quality of definitions for performance measure targets varied considerably. For some targets, it is difficult to tell what exactly will be counted; for others, the measure communicates something about what is counted, but it could be refined to make it clearer (see the box at right).

Information systems were not consistently used for data management

Performance measurement leading practices include strategies for supporting data quality and the ongoing effectiveness of the system. Examples of such practices include using an information system to manage data and establishing procedures to facilitate accurate data entry and storage. Providing guidance or training to staff managing the performance measures can also help ensure this work is done as effectively as possible.

Statute requires the use of an information system, but Commerce only partially employed leading practices supporting data quality. It set up a web-based system for collecting program data from ADOs, but it did not always use this system. Instead, since March 2013, Commerce has collected performance targets data via spreadsheets emailed from ADO, and has compiled outcome data from individual forms sent in by each ADO. As a result, Commerce risks introducing inaccuracies into the data, both as ADOs enter it and again when Commerce employees transfer the data from emailed spreadsheets and Word documents into other locations. We found that data reported via email was less accurate than data submitted through the web-based system.

Performance targets could be better defined.

A clearly defined performance measure includes definitions of key terms. The measure title should include a unit of measure and what is measured.

Many ADO performance targets were not clearly defined – rather, they described planned activities. Examples of these targets include:

- “Survey businesses to understand their needs and provide assistance and/or referrals to other partner organizations i.e. WorkSource, Impact Washington, SBDC, Dept. of Commerce Export Assistance.”
- “Funding partners – Improve access to capital and help develop financial alternatives. Establish or create links for local venture capital for local business entrepreneurs; this may include a formal venture capital roundtable event, etc.”
- “Sponsor or cosponsor seminars or educational events for entrepreneurs and small business.”

Data quality checks were conducted on a limited basis

Systematic checks on the accuracy of data are important for identifying errors and inconsistencies. Commerce did not have established procedures for checking data accuracy; instead, staff reported that they checked data on an ad-hoc basis when time permitted. With no regular checks to assure data quality, there is no way to be sure that data is accurate enough to support its use for performance measurement.

Commerce provided only limited guidance to employees implementing performance measurement

By offering guidance or training on performance measurement, Commerce management can promote more effective data management practices as well as other leading practices. These resources should be made available to staff who develop, manage or use performance measures. However, Commerce staff tasked with developing performance measures received no training or guidance materials focused on performance measurement.

Reporting on performance measures: What we found

When reporting performance measures externally, an organization should work to develop a report that is user-friendly, clear and concise, while including the information needed for a reader to accurately interpret the data and accompanying information. To support this end, the report should include, among other things, statements explaining the measures, descriptions of any data limitations, clear definitions of the measures, and key highlights, including success stories as well as stories describing challenges.

Additionally, since outcome measures rarely result entirely from a program's activities, experts recommend that organizations estimate their degree of influence on outcome measures in external reports. Such estimates need not be quantified. Rather, an organization can qualify its level of influence as low, medium or high.

The biennial performance report presented information to support transparency and decision making

Commerce's report to the Legislature largely aligned with leading practices for reporting, as it included most of these recommended elements. Report authors described data limitations, provided clear definitions for the measures, and included key highlights of ADO work. And while report authors did not include any direct statements about ADOs' influence on jobs and capital investment, they did include discussions of outside factors that affected outcome measures. The report could be further improved by including clear statements about ADOs' ability to impact outcome measures as well as stories of challenges faced.

By focusing energy on refining goals, the Legislature, Commerce and ADOs can develop a performance measurement system that really works

A set of clearly stated goals is the basis for developing a well-functioning performance measure system, as performance measures should stem directly from program goals. Effective goals are stated in qualitative language, rather than including numerical targets. They are also balanced across priorities, and should include measures of service quality, efficiency, intermediate outcomes and end outcomes.

By attending to applicable leading practices as they develop the necessary measures, all stakeholders – Commerce, the ADOs, and the Legislature – can be better assured the measures provide information on progress towards goals. They should consider:

- Reducing the number of measures, using only those that best communicate how well ADOs are doing
- Developing measures that communicate about ADO progress by measuring efficiency and quality of work as well as program processes and outputs
- Clearly defining all measures
- Balancing the need for consistency of measures across ADOs with the varied range of services ADOs deliver

Commerce and its partners should consider which other leading practices listed on page 13 of this report could most benefit the program, given available resources. Some leading practices would require a substantial commitment of resources, but others can be implemented at little or no cost. Given Washington stakeholders' longstanding interest in the impacts of economic development programs, these performance measure leading practices can also benefit other state economic development programs.

Recommendations

In order to help the state align ADO performance measurement with leading practices, we recommend:

1. The Legislature establish clear goals for the program in consultation with Commerce and ADOs.

A set of clearly stated goals is the basis for developing a well-functioning performance measure system, as performance measures should stem directly from program goals.

The Legislature should explicitly state the program goals and expected outcomes the ADO program is to achieve. These goals should be stated in qualitative language, rather than as numerical targets. They should also be balanced to include service quality, efficiency, intermediate outcomes and end outcomes.

2. The Legislature reform reporting requirements for both Commerce and the ADO program.

By amending the law, the Legislature can streamline processes and ensure that ADO performance measurement can provide information that supports decision making. This includes:

- Require Commerce and ADOs to develop measures aligned with clarified program goals
- Reduce the amount of information ADOs must include in annual reports to Commerce, by eliminating the requirement to submit information gathered by the Employment Security Department, which is readily available, and consumes limited staff resources while adding little value
- Allow descriptive reporting for activities for which performance measures are not a good fit, such as capacity-building and long-term planning efforts

3. Commerce and ADOs improve performance measures based on clarified program goals.

In doing so, they should follow applicable leading practices, including:

- Reduce the number of measures, using only those that best communicate how well ADOs are doing
- Develop measures that communicate about ADO progress by measuring efficiency and quality of work as well as program processes and outputs
- Clearly define all measures and require that they are consistently applied.

Agency Response



STATE OF WASHINGTON

October 1, 2014

The Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Kelley:

Thank you for the opportunity to review and respond to the State Auditor's Office (SAO) performance audit report on "*Performance Measures in Economic Development Programs: Opportunities to enhance transparency and improve processes.*"

The Department of Commerce (Commerce) appreciates the SAO's balanced and thorough review of a complex issue. The report acknowledges Commerce's efforts to follow the Legislature's intent in providing assistance to the Associate Development Organizations (ADOs). Commerce concurs with the conclusions and recommendations in the report, and we value the input offered.

We appreciate that SAO auditors recognized the difficulty of isolating ADO program impacts. Business owners consider many factors when making business decisions and few of those are controlled by Commerce. While the statute contains vague but prescriptive language, Commerce continues to seek ways to implement and measure the program. We look forward to working with the Legislature to provide clarity and measures that demonstrate the effectiveness of ADO program activities.

Sincerely,

Handwritten signature of Brian Bonlender.

Brian Bonlender, Director
Department of Commerce

Handwritten signature of David Schumacher.

David Schumacher, Director
Office of Financial Management

cc: Joby Shimomura, Chief of Staff, Office of the Governor
Kelly Wicker, Deputy Chief of Staff, Office of the Governor
Miguel Pérez-Gibson, Executive Director of Legislative Affairs, Office of the Governor
Kelly Ogilvie, Senior Policy Advisor, Executive Policy Office
Tracy Guerin, Deputy Director, Office of Financial Management
Jay Balasbas, Senior Budget Assistant, Office of Financial Management
Wendy Korthuis-Smith, Director, Results Washington, Office of the Governor
Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor
Dan McConnon, Deputy Director, Department of Commerce
Mary Trimarco, Assistant Director, Department of Commerce



OFFICIAL STATE CABINET AGENCY RESPONSE TO THE PERFORMANCE AUDIT ON ECONOMIC DEVELOPMENT PROGRAMS: OPPORTUNITIES TO ENHANCE TRANSPARENCY AND IMPROVE PROCESSES – SEPTEMBER 30, 2014

This coordinated management response to the State Auditor’s Office (SAO) performance audit report received on September 16, 2014, is provided by the Department of Commerce (Commerce) and the Office of Financial Management (OFM).

SAO PERFORMANCE AUDIT OBJECTIVES:

The Legislature wants to know if money directed toward economic development has the desired impact. Commerce is required by statute to maintain a system of performance measures focused on Associate Development Organizations (ADO) outcomes, especially job creation and capital investment, which are widely used metrics for economic development. The SAO sought to answer:

1. Is it technically feasible to isolate the ADO’s impact on economic outcomes?
 2. Are the performance measurement practices used by the Department of Commerce to manage ADO contracts aligned with statutory intent?
 3. Are the performance measurement practices used by the Department of Commerce to manage ADO contracts aligned with leading practices?
-

SAO Issue 1: Commerce cannot measure ADO impact.

SAO Issue 2: The performance measurement system is not working as intended.

SAO Issue 3: The performance measurement system is partially aligned with leading practices.

SAO Recommendation 1: The Legislature establish clear goals for the program in consultation with Commerce and ADOs.

STATE RESPONSE: As the Legislature reviews the program, Commerce will provide input and observations as requested.

Action Steps and Time Frame

- None applicable. *Dependent upon legislative action.*
-

SAO Recommendation 2: The Legislature reform reporting requirements for both Commerce and the ADO program.

STATE RESPONSE: As the Legislature reviews the program, Commerce will provide input and observations as requested.

Action Steps and Time Frame

- None applicable. *Dependent upon legislative action.*

SAO Recommendation 3: Commerce and ADOs improve performance measures based on clarified program goals.

- Reduce the number of measures, using only those that best communicate how well ADOs are doing.
- Develop measures that communicate about ADO progress by measuring efficiency and quality of work as well as program processes and outputs.
- Balance the need for consistency of measures across ADOs with the varied range of services ADOs deliver.

STATE RESPONSE: Commerce concurs with the recommendations. Reducing the number of measures will be dependent upon clarification of goals directed by the Legislature. We will use the experience we gained to help craft a streamlined set of performance measures once we understand legislative goals.

The report highlights the need for performance measures to be consistent statewide to provide the Legislature with effective, comparative data. Commerce recognizes that numbers alone do not effectively communicate the entire range of ADO accomplishments. Examples associated with the successes and trials of implementing economic development strategies will be included in Commerce's next legislative report due in December 2016.

Action Steps and Time Frame

- Upon the completion of legislative clarification of the program's goals, Commerce will implement the recommendations. *Dependent upon legislative action.*
 - Examples associated with the successes and trials of implementing economic development strategies will be included in Commerce's next legislative report. *By December 31, 2016.*
-

Appendix A: Initiative 900

Initiative 900, approved by Washington voters in 2005 and enacted into state law in 2006, authorized the State Auditor’s Office to conduct independent, comprehensive performance audits of state and local governments.

Specifically, the law directs the Auditor’s Office to “review and analyze the economy, efficiency, and effectiveness of the policies, management, fiscal affairs, and operations of state and local governments, agencies, programs, and accounts.” Performance audits are to be conducted according to U.S. General Accountability Office government auditing standards.

In addition, the law identifies nine elements that are to be considered within the scope of each performance audit. The State Auditor’s Office evaluates the relevance of all nine elements to each audit. The table below indicates which elements are addressed in the audit. Specific issues are discussed in the Results and Recommendations section of this report.

I-900 element	Addressed in the audit
1. Identification of cost savings	No. However, the audit recommends that the program use measures of efficiency, which can help identify potential cost savings.
2. Identification of services that can be reduced or eliminated	No. This audit evaluated the performance measurement system, rather than services provided.
3. Identification of programs or services that can be transferred to the private sector	No. Economic development is a strategy government uses to foster private sector economic activity.
4. Analysis of gaps or overlaps in programs or services and recommendations to correct gaps or overlaps	No. This audit did not analyze gaps or overlaps in programming.
5. Feasibility of pooling information technology systems within the department	No. This audit evaluated a single program.
6. Analysis of the roles and functions of the department, and recommendations to change or eliminate departmental roles or functions	Yes. The audit recommends improving performance measurement functions.
7. Recommendations for statutory or regulatory changes that may be necessary for the department to properly carry out its functions	Yes. This audit recommends that the Legislature clarify statute and reduce reporting requirements.
8. Analysis of departmental performance, data performance measures, and self-assessment systems	Yes. The audit objectives included an evaluation of the ADO performance measurement system.
9. Identification of best practices	Yes. Leading practices in performance measurement were identified and are presented in the report.

Appendix B: Methodology for feasibility analysis

Members of the Washington State Legislature would like to identify the return on investment for public funds spent on economic development activities. Such an analysis would require comparing ADO program impacts with what would have happened if the ADO had not provided services.

However, isolating the effect of any one program on economic outcomes presents significant challenges. We concluded that identifying the ADO program's impact on jobs is not feasible due to the numerous factors complicating the analysis and the relatively small size of its reported impact.

Based on our conclusions, we recommend that Commerce and ADOs refocus evaluation efforts on a balanced set of measures, reflecting efficiency, quality, outputs, and intermediate outcomes, rather than the impact on jobs.

What we did

We reviewed literature drawn from the fields of economic development, econometric methodology, and program evaluation. In addition to the literature review, we interviewed specialists in program evaluation and/or economic development:

- Drs. Nancy Kingsbury and Stephanie Shipman, Applied Research and Methods, U.S. Government Accountability Office
- Dr. Jeffrey Smith, Professor of Economics, University of Michigan
- Swati Ghosh, Research and Technical Assistance Director, International Economic Development Council

We also spoke with ADO program stakeholders at all levels: legislators, ADO staff, Commerce staff, and others, such as county and city officials. Interview respondents and the literature reviewed made a compelling case that identifying ADO program impact would not be feasible.

We estimated the minimum measurable effect the program would need to have in order to be detectable. To do this, we employed a statistical method – called a power analysis – based on jobs data from the Employment Security Department (ESD) and the number of jobs ADOs reported as added in connection with their assistance.

Based on our results, we concluded that the program's modest size compounds the difficulties in identifying the ADO program impact, because the minimum measurable effect is greater than the reported impact on jobs. The ADO program reported adding about 3,200 jobs last year. In contrast, ADOs would have needed to report more than twice as many jobs as they did in order for the impact to be measurable using statistical methods.

Power Analysis Program Evaluation Tool

This tool applies a statistical technique called power analysis, which can estimate either the minimum number of participants needed in a study or the minimum effect size that can be measured, given a proposed study design. Users of this tool should have knowledge of basic statistical methods.

This type of power analysis compares the mean outcome for program participants (the treatment group) to the mean outcome for comparable individuals who did not receive services (the control group). If a program has a different evaluation model, this tool is not applicable.

1. Gather information, identifying the values listed below:

a) Standard Deviation: _____

Calculate the standard deviation by considering both the control group and the treatment group as one population, and calculating the value. Microsoft Excel or other software can be used.

b) Statistical Significance: _____

An estimate of how often the evaluator would be willing to find a program effect when in fact none exists (false positives). Must be between zero and one; a typical value is 0.05, or five times out of a hundred.

c) Power/Sensitivity: _____

The minimum percent of time the evaluator would need to find a program effect when there is one. Must be between zero and one; a typical value is 0.80, or eighty times out of a hundred.

d) Enter one of the following – the analysis will determine the unknown value:

Sample size: _____

- The number of program participants for which outcomes were measured during the evaluation period.

Estimated effect size: _____

- The estimated impact of the program; this could come from previous evaluations or comparisons with similar programs.

2. Use online calculator. Once the information is gathered, use software to calculate the desired information from item d. Many free online tools for power analysis are available, such as:

- <http://homepage.stat.uiowa.edu/~rlenth/Power/index.html>

Please note that the State Auditor's Office does not endorse this or any other website, but has provided it as an example only.

General resources on performance measures

Hatry, H. P. (2006). *Performance Measurement: Getting Results*, 2nd ed. Washington, D.C. The Urban Institute Press.

State of Washington Office of Financial Management. (2014). *Performance Measure Guide*.

U.S. Department of Energy. (1996). *Guidelines for Performance Measurement*.

Performance measurement in economic development

International Economic Development Council. (2014). *Making It Count: Metrics for High Performing EDOs*.

Urban Institute. (n.d.). *Candidate Outcome Indicators: Business Assistance Program*.

Appendix C: Profiles of three associate development organizations

While all ADOs deliver business assistance and support long-range planning activities, they vary considerably when it comes to priorities and the specific services delivered. In the following pages, three ADOs are profiled to provide examples of ADO activities and to highlight the variation among ADOs. These profiles are based on our interviews, and the information presented here has not been independently verified.

1. Grant County Economic Development Council

At a glance

Counties served: Grant

Number of employees: 3

Revenue (2012): \$307,060

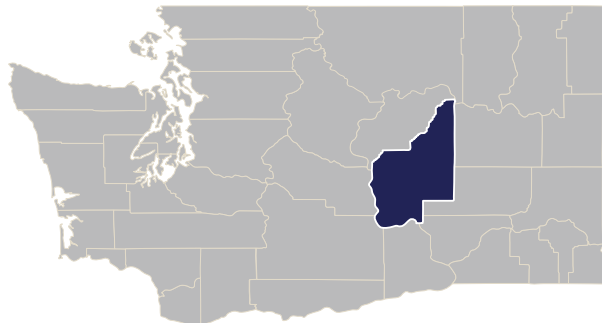
Percent of budget from state grant: 21.3%

Service area: Grant County

Population in service area (2013): 91,878

Number of businesses (2012): 1,726

Unemployment rate (2013 est.): 8.9%



Grant County diversifies to attract major corporate facilities

In Grant County, the Moses Lake and Quincy areas have received considerable attention for their economic growth. Once known primarily for farming and food processing, the region has diversified over the last decade. During that time, it has attracted new data centers, manufacturers, and the aerospace industry, while strengthening its agricultural and food processing sectors.

The Grant County Economic Development Council (EDC) serves as the area ADO. With three staff, the EDC mainly focuses on helping existing businesses grow, while also assisting companies considering a move to the area. One EDC staffer offers technical assistance for small businesses. The EDC devotes a lesser amount of its time to other services, such as hosting community forums, helping obtain infrastructure funding, and collaborating with other organizations to develop the local workforce.

The EDC's focus on recruiting and expanding companies continues to grow as the organization matures. When it was first founded in 1991, the EDC focused mainly on building capacity for economic growth through long-range planning in collaboration with other community groups.

The EDC helps attract data centers

The robust growth experienced around Moses Lake stems from an effort begun over a decade ago. In the late 1990s, the EDC, along with other community leaders, developed a plan to grow the economy. As the area offered flat land, low cost power, and logistical advantages, they identified data centers as an industry to target for recruitment efforts.

The EDC took the lead role, working with the public utility district and others, to make the area more attractive to data centers. A key barrier was the absence of an available fiber optic network with the necessary capacity. To overcome this challenge, the EDC and others advocated with state leaders; a law was passed in 1999, allowing the local public utility district to sell wholesale telecommunication services to corporate customers over its fiber-optic network.

At this point, the area had the necessary ingredients to attract data centers, but because of changes in the economy, success was delayed for years. Around the time the fiber optic network was opened,

the information technology speculative bubble came to an end, and the U.S. market was flooded with empty data centers. Not until 2006 did the industry need more space. At that time point, Microsoft and Yahoo! approached the EDC to learn more about Grant County as a potential data center site. EDC staff worked closely with these companies to provide detailed information on the region, to assist with permitting and regulations, and to act as a point of contact with local and state government. Today, data centers contribute significantly to prosperity in Grant County.

The effort to attract data centers highlights the many ways the EDC collaborates with others to promote economic growth. Initial efforts focused on identifying infrastructure needs and other barriers, and carrying out long-term plans to address them. A multi-year effort was required to lay the groundwork so that the target industry could locate there. Then the EDC assisted prospective companies as they considered Grant County.

The EDC continues to help meet business needs

Along with cultivating data centers, the EDC has continued to promote growth for the area by working to identify and address business needs. In one case, the EDC worked with the local workforce development council to create a training program, which helps local workers acquire skills needed in food processing facilities. In another case, the EDC helped reopen a silicon factory that had closed down by helping to identify a corporate buyer to purchase and reopen the facility.

2. Skamania County Economic Development Council

At a glance

Counties served: Skamania

Number of employees: 2

Revenue (2012): \$188,158

Percent of budget from state grant: 18.4%

Service area: Skamania County

Population in service area (2013): 11,274

Number of businesses (2012): 178

Unemployment rate (2013 est.): 10.6%



Located in the mountainous hinterlands to the north along the Columbia River Gorge, Skamania County's opportunities for economic growth are limited by its location and land ownership. Almost 90 percent of Skamania's land area is timbered, but the 80 percent of the county is subject to logging restrictions because it lies within the boundaries of Gifford Pinchot National Forest and Mount St Helens National Volcanic Monument. Much of the remaining land is part of the Columbia Gorge National Scenic Area, which has its own restrictions on development. As a result, the county has a small job and tax base, and the economy is focused mainly on tourism. Until recently, an aerospace manufacturer had operations in the county, which a number of smaller firms provided with support services.

The Skamania County EDC provides businesses with resources, including loans, and connection with local government entities. In contrast to some ADOs, the EDC devotes most of its time to managing two loan programs, valued at nearly \$2.5 million. The ADO lends to both public and private entities to foster growth in commerce and infrastructure. It also helps local jurisdictions apply for and manage grants.

EDC staff also spend time working with businesses interested in expanding or relocating to the area. In addition to providing loans, they help write business plans and refer firms to area resources. As developable space is an issue for Skamania, the EDC provides site selection assistance to a number of businesses. Looking to the future, the EDC sees growth opportunities in aerospace manufacturing and continued development of its tourism sector.

The EDC considers itself a liaison for businesses that need to connect with resources – both those offered by the EDC and by other organizations. As part of its operations, it collaborates with other government entities, nonprofits and banks. Aside from efforts to directly assist businesses with loans and other help, the EDC also works to prepare the area for future growth through efforts to train the local workforce and other planning activities.

The EDC helps a new brewery open

When a local family attempted to open a microbrewery, they found they were not eligible for a conventional business loan. They contacted the EDC, which lent them the money needed to open the business. The EDC later approved a second loan that enabled the business to purchase new equipment. Besides making these loans, the EDC has helped the owners create a business plan and connected the company with WorkSource, a state program that helps employers find qualified job applicants. The brewery now has 11 full-time and 19 part-time employees.

Clark College offers classes in Skamania County

The EDC has also attempted to improve the local workforce to better meet employer needs and foster job growth. One way it has moved towards this goal is through its efforts to establish a satellite location for Vancouver's Clark College. As a number of Skamania residents had to travel to Vancouver for classes, the EDC recognized a need for improved access to educational resources. The EDC worked with the college to help it open a branch in a vacant school building, and classes began in fall 2013. Currently, the college is considering expanding technical classes, with the possibility of offering aerospace training.

3. Economic Development Board (EDB) for Tacoma-Pierce County

At a glance

Counties served: Pierce County
Number of employees: 7
Revenue (2012): \$776,693
Percent of budget from state grant: 29.2%
Service area: Pierce County
Population in service area (2013): 819,743
Number of businesses (2012): 16,441
Unemployment rate (2013 est.): 8.1%



Tacoma-Pierce EDB focuses on attracting and growing major employers

Pierce County's economic strengths are related to its workforce, as well as the presence of an important port and the military. As aerospace manufacturing and the software industry gained importance in the Seattle area during the 1960s and 1970s, related industry grew in Tacoma; with the decline of wood products manufacturing, many Tacoma workers began commuting to the Seattle area for work. Today, Pierce County's economy is based on its traditional strengths, including healthcare, aerospace manufacturing and its port, a major center for bulk and heavy-lift cargoes.

The EDB serves as the area ADO. With seven staff, the EDB splits its time between helping businesses that wish to relocate to Pierce County and helping companies already in the area remain and expand. It also cooperates with other institutions to build assets such as public infrastructure and workforce development.

The EDB collaborates with others to recruit Niagara Bottling

Niagara Bottling, a privately held company based in Southern California, is opening a water bottling facility in southern Pierce County which is expected to result in 40 new jobs. In 2012, the company approached a real estate broker and started working with the EDB. Over the course of two years, the EDB has held hundreds of meetings to assist the company with the move, helping in particular with permitting, workforce needs, and negotiations with the owner of the target site.

To help with permitting and regulations, the EDB organized a trip for local officials from several government agencies to tour a Niagara Bottling facility in Colorado. By touring this facility, these officials were able to understand what Niagara needed to accomplish and provide suggestions on how the company could comply with local and state regulations in Pierce County. This saved both the company and permitting agencies time.

The EDB prepares Pierce County for job growth

As with the Niagara recruitment project, many of the EDB's projects are carried out over a period of years, often in collaboration with other organizations. Among its efforts to grow the county's economy and attract companies, the EDB helped expand the University of Washington's Institute of Technology by advocating for its funding and raising its priority with University officials. While such efforts do not necessarily create specific jobs, EDB officials believe such activities help promote future job growth by offering employers a skilled, educated workforce.

Appendix D: 2013 Study request

The 2013 Legislature directed its research branch, the Joint Legislative Audit and Review Committee (JLARC), to review performance measurement by economic development programs at the Department of Commerce (3ESSB 5034 of 2013, Sec. 103 (6)). As JLARC did not include this review in its work plan, we evaluated the questions as they apply to the ADO program. Their request is excerpted below, followed by a table with our results.

The Legislature requests a JLARC study on economic development programs

“The committee shall conduct a study of economic development programs and projects supported by the state general fund in the department of commerce. The study shall first review the extent to which these programs:

- (a) Included specific economic development targets;
- (b) monitored economic development targets;
- (c) required for programs which provided support or services through contracts, whether the contracts were structured such that if economic development targets were not met, contracts were reviewed or revised; and
- (d) changed the economic development targets of associate development organizations relative to funding increases since 2007.

The study will include the feasibility of determining how to isolate other factors, such as general economic trends, from the impacts of economic development programs.”

Source: 3ESSB 5034 of 2013, Sec. 103 (6)

Questions	Result
Did the ADO program include specific economic development targets?	Yes
Did the ADO program monitor economic development targets?	Yes
Were the ADO contracts structured such that if economic development targets were not met, contracts were reviewed or revised?	Yes
Did the ADO program change the economic development targets of associate development organizations relative to funding increases since 2007?	Partially. However, most targets could not be compared.
Is it feasible to isolate other factors, such as general economic trends, from the impacts of the ADO program?	No