

Economic Impact Analysis



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Outline



- Tell you about Impact DataSource
- Provide some information on economic impact analysis
- Share some thoughts on incentives and incentive guidelines
- Answer questions including questions that you may have on some of your projects



About Impact DataSource



- Jerry Walker, an economist and the owner of Impact DataSource
- Impact DataSource, Austin economic consulting, research and analysis firm created in 1993
- Specialize in economic impact analysis and related computer models
- Completed projects for over 200 Texas cities and conducted analyses in over 25 states



Names of Analysis



- Economic impact analysis
- Fiscal impact analysis
- Cost-benefit analysis



Definition



- An economic impact analysis is the calculation of the worth of a project, firm or activity to a community



Periods During Which Impacts are Generated by a Firm



- Construction of a facility
- Operations of a firm
- Direct and indirect employees
- Visitors



Two Components of an Analysis



- Economic impacts
- Fiscal impacts -- costs and benefits for local taxing districts



Some Economic Impacts



- The firm's property added to local tax rolls
- New residential property added to local tax rolls
- Retail sales at the facility
- Jobs
- Worker spending
- Visitor spending



Direct and Indirect Economic Impacts



- A dollar can turn over up to seven times in a community
- \$1 sales at the new business may create 50¢ in sales in other local businesses
- 1 new direct job may create .5 indirect or spin-off jobs
- \$1 paid to a new direct worker may create 50¢ in salaries for a worker in a new spin-off job in the community



Multipliers for Calculating Indirect Impacts



- Regional Input-Output Modeling Systems, RIMS II
- Available from the US Department of Commerce's Bureau of Economic Analysis
- Available for the state, county and some cities
- Available by industry



Fiscal Impacts



- Economic impacts translate into fiscal impacts
 - revenues for local taxing districts
 - Sales taxes
 - Property taxes
 - Utilities
 - Utility franchise fees
 - Hotel occupancy taxes
 - Other taxes and user



Example of Sales Tax Collections



- Sales taxes, as an example, are collected on:
 - Construction materials and construction worker spending
 - Local spending by the facility
 - Retail sales by the facility
 - Spending by the firm's workers
 - Spending by out of town visitors



Additional Costs for a City or Other Local Taxing District



- Costs of providing municipal services to new residents
- Costs of providing utilities
- Costs of providing municipal services to the firm or project



Net Benefits for a City or Other Local Taxing District



- Additional revenues
- Minus additional costs
- Net benefits over a ten year period



Local Taxing Districts



- City
- County
- School district
- Special taxing districts
- Hospital district
- College district
- Water district
- Emergency service district



Data Needed to Conduct an Economic Impact Analysis



- Tax and other community rates
- Number of new employees
- New worker salaries
- Firm's investment in property
- Firm's taxable sales and purchases
- Firm's utilities
- Number of out-of-town visitors
- Information on tax abatement and incentives being considered



How an Analysis is Done



- Data is accumulated by community from a prospective firm
- Data is e-mailed to Impact DataSource
- Impact DataSource enters data into a computer program
- Economic impact analysis report is completed and e-mailed to community



Possible Approaches to Determine Levels of Incentives



- Give the firm or project what it asks for
- Use the back of a napkin
- Ask your brother-in-law
- Guess on incentives
- \$2 million is a good round number
- Best to use an objective approach
- Conduct an economic impact analysis or cost benefit analysis



Why an Economic Impact Analysis is Important



- Allows economic developers to fashion incentive packages for prospects based on expected benefits to the community
- Allows community officials to review and approve incentive packages based on objective data and analysis
- Allows an objective allocation of economic development funds to those prospects that promise the greatest returns for a community



How Incentives Should be Viewed?



- Incentives are a city investment in a firm
- The returns on that investment are the additional net benefits for the city over the first ten years
- A financial analysis of this city investment can be made
- An economic impact analysis can do this
- An average annual rate of return on this investment can be calculated
- The payback period of this investment can be calculated



Returns on the Investment



- If the incentives are funded by the city then only returns or revenues for the city should be considered in determining a level of incentives
- What will the firm do for the city
- Revenues from a firm for all local taxing districts for smaller cities or counties may be considered in determining incentives to offer a firm
- The firm benefits all local taxing districts



How to objectively determine the level of incentives to offer?



- Step 1. Conduct an economic impact or cost-benefit analysis
- Project the net benefits to a city or other local taxing districts over a ten year period from a firm or project
- The maximum level of incentives should be dictated by the net benefits that a city will receive from a firm or project



Example



- Net benefits for a city are \$200,000 over ten years from a prospect firm
- The returns each year for the city are \$20,000 or \$200,000/10 years
- If the city wants an average annual rate or return on investment of at least 20%
- Incentives of \$100,000 can be offered \$20,000/20%
- Incentives will be paid back in about five years



General Incentive Guidelines



- Identify the taxing districts that offer tax abatement and other incentives
- Set or obtain tax abatement policies
- Identify the types of other incentives would each taxing district may offer
- Types of firms to be offered tax abatement and other incentives
- Set tax abatement percentage and length based on number of jobs created or investment



Other Financial Incentives



- Cash
- Land
- Infrastructure
- Rebates of sales or property taxes by city or county
- Freeport exemption
- Loans
- Spec building
- Loan guarantees



Setting Incentive Guidelines



- Let board set guidelines
- Guidelines should be consistent and objective
- Provide those guidelines to prospects
- On other financial incentives tell prospects:
 - We provide a level of incentives based on the benefits that you bring to the community
 - We require data from you
 - We calculate the economic impact of your firm on our community and net benefits for our city over a 10 year period
 - Using these net benefits, we calculate incentives based on our expected rate of return on investment



Some Incentives Basics



- Offer the same incentives to:
- Local expanding firms
- New startup firms
- Firms recruited from outside the community



Levels of Incentives to Offer



- Offer discounted cash flow to be received by the city over a period of time, such as 5 or 7 years, as maximum incentives
- Offer maximum incentives that provide an average annual rate of return on investment of at least 10% or greater than a city's cost of money
- Offer maximum incentives that have a payback period of 10 years or less
- Can offer more for a firm that puts the community on the map, such as an IBM research facility



Types of Firms to Offer Incentives



- Offer incentives to firms that meet economic development objectives of community
- Primary industries, those that export products and bring dollars to the community
- Typically manufacturing, warehouse/distribution, service firms, etc.
- Those firms that have a choice on where they locate



Types of Firms to Offer Incentives, Continued



- If you can be selective provide incentives to:
- Firms that offer high skilled, high wages jobs
- Firms that are capital intensive
- Firms that have the potential to cluster, such as high tech
- Firms that have the potential to bring in suppliers
- Firms that create the most spin-off jobs and revenues for existing local businesses



Types of Firms to Offer Incentives, Continued



- An ethanol plant uses the corn of area farmers
- A meat processing plant uses hogs and cows of farmers and ranchers in the area
- A call center may provide entry level jobs or part-time jobs for area college students
- Offer incentives to firms that enhance the community
- Don't pollute
- Don't give the community a bad image



Incentives for Retail



- What about incentives for retail?
- Retail follows rooftops
- Retail churns local dollars -- doesn't bring in new dollars
- Regional retail brings in dollars from outside the community
- Any jobs and economic activity are good



Target Economic Development Dollars



- With limited economic development resources
- Allocate or target resources and efforts to those activities or firms that may provide the greatest long term impact on the community

