Georgia Tech Center for Economic Development Research

INTEGRATING FISCAL IMPACT INTO YOUR ECONOMIC DEVELOPMENT STRATEGY

DR. ALFIE MEEK

SIDEBAR CONFERENCE

AUGUST, 2021

CREATING THE NEXT®

Myth:

Growth and development mean an increasing tax base and better financial health for the local government.

Fact:

A growing tax base isn't enough to guarantee financial health. Revenue must grow faster than expenditures.

ECONOMIC IMPACT ANALYSIS

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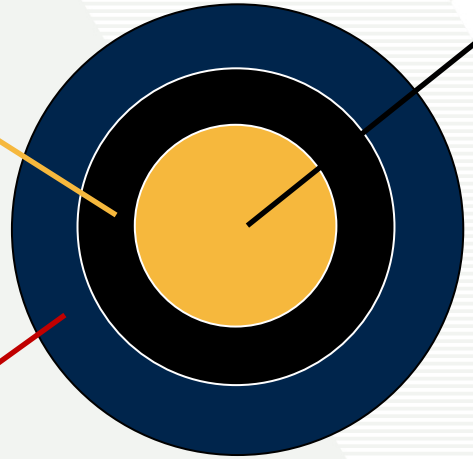
DIRECT ACTIVITY

INDIRECT ACTIVITY

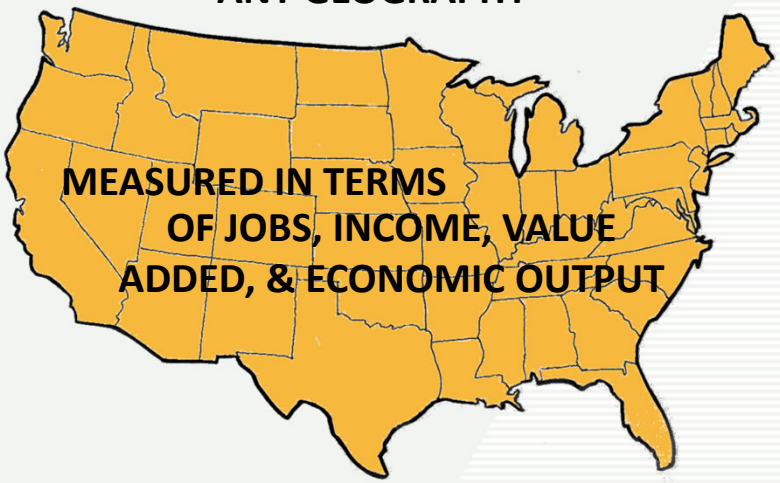
INDUCED ACTIVITY



$\sum$ TOTAL ECONOMIC IMPACT

IS THE SUM OF ALL THREE

CAN ME MODELED FOR ANY GEOGRAPHY



MEASURED IN TERMS OF JOBS, INCOME, VALUE ADDED, & ECONOMIC OUTPUT

BASIS FOR THE "MULTIPLIER"

TOTAL ÷ DIRECT = MULTIPLIER

\+ ALWAYS POSITIVE

FISCAL IMPACT ANALYSIS

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EXPENSE

EDUCATION
PUBLIC SAFETY
INCENTIVES, ETC.

REVENUE

PROPERTY TAX
SALES TAX
FEES, ETC.

BASED ON SPECIFIC CHARATERISTICS OF YOUR COMMUNITY:

LAND USE, TAX STRUCTURE, COMMUTING PATTERNS, SERVICE DELIVERY, ETC.

CHARACTERIZES INCENTIVES AND ECONOMIC DEVELOPMENT SPENDING AS AN INVESTMENT AND CAN DEMONSTRATE TO THE PUBLIC THAT INCENTIVE DECISIONS ARE NOT TAKEN LIGHTLY.

CAN HELP COMMUNITIES WEED OUT BAD DEALS!!

± CAN BE POSITIVE OR NEGATIVE!

ECONOMIC VS. FISCAL

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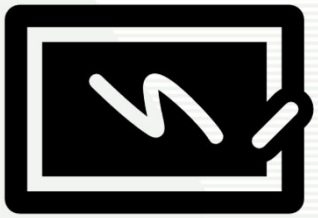
Understanding the difference between economic and fiscal impact is critical for economic development success.



Beware of "experts" from the ivory towers of academia with little or no practical experience….

> ***"Fiscal and economic impact analyses are synonymous. I've never heard of a distinction."***
>
> **-- FB post by an economics professor from a major USG institution**

THE JOB CHAIN IN YOUR COMMUNITY

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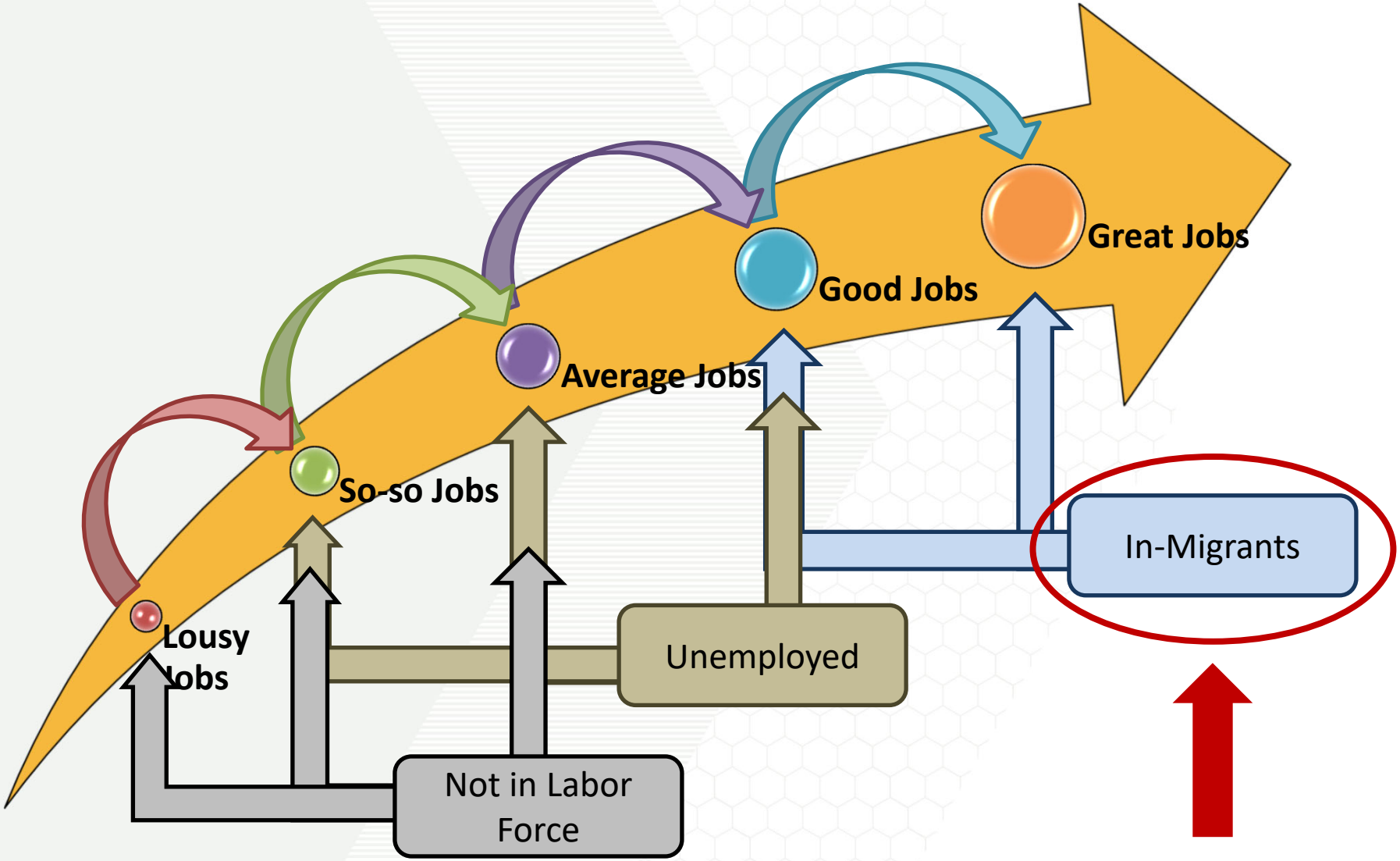

WHERE WILL THE NEW EMPLOYEES LIVE?

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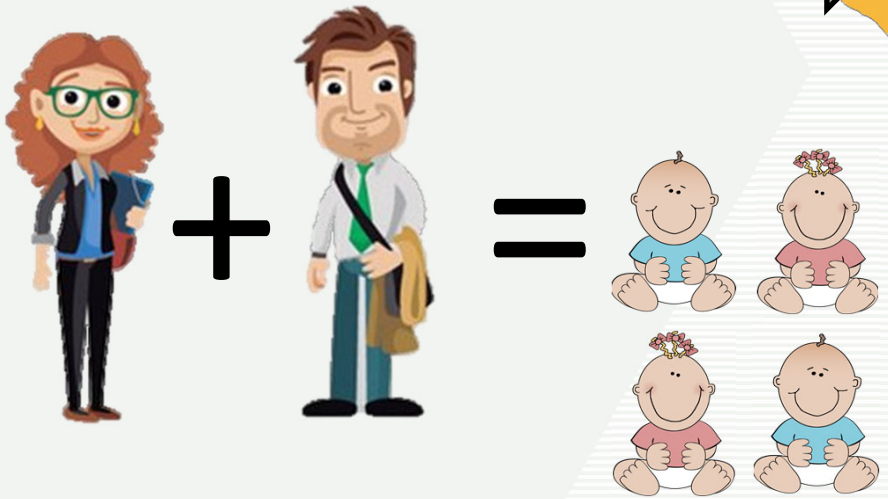
New residential growth results in….

- Increased property tax
- Increased sales tax
- Increased fines and fee revenue

Some outside the county

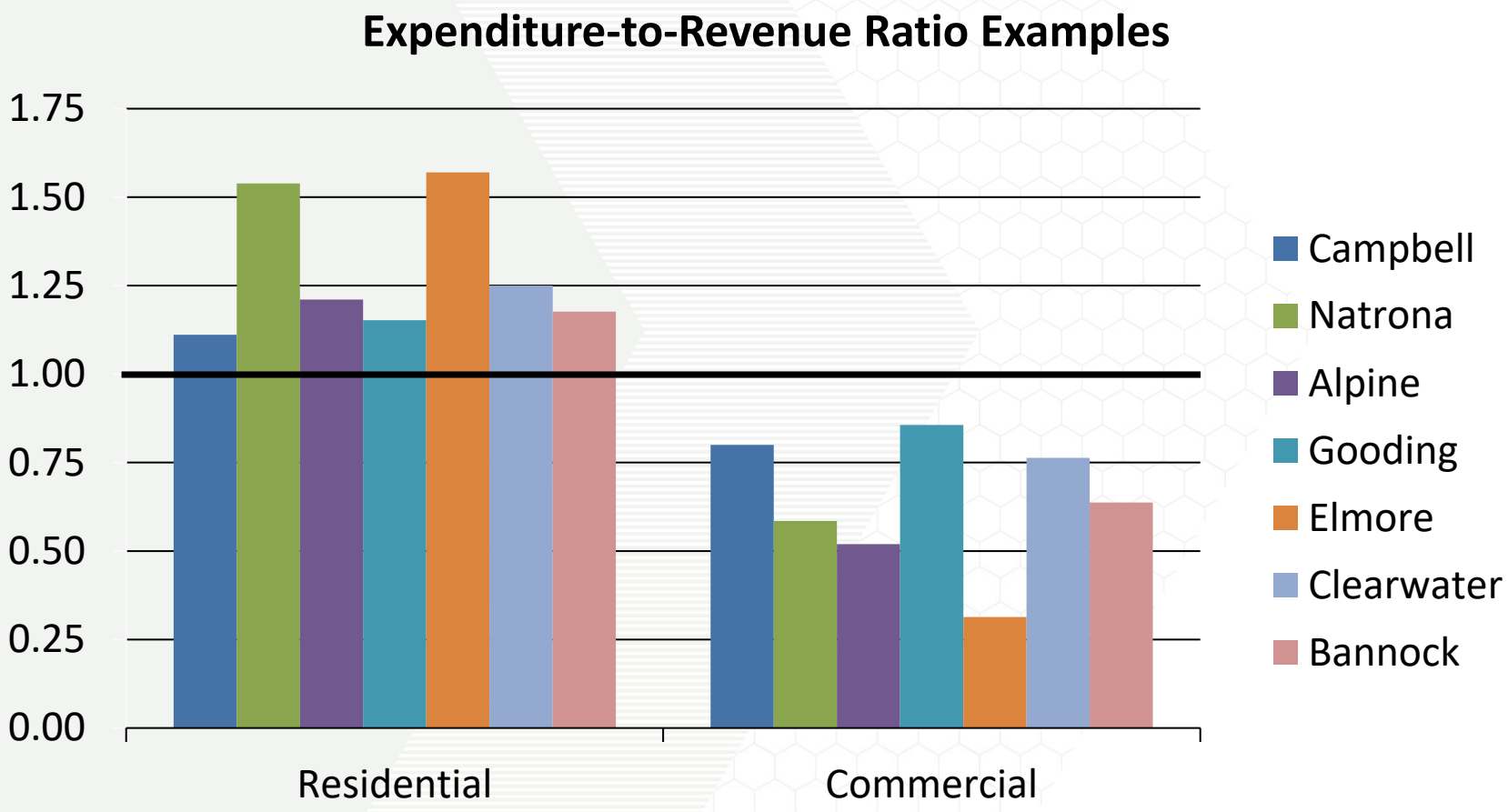
Some inside the county



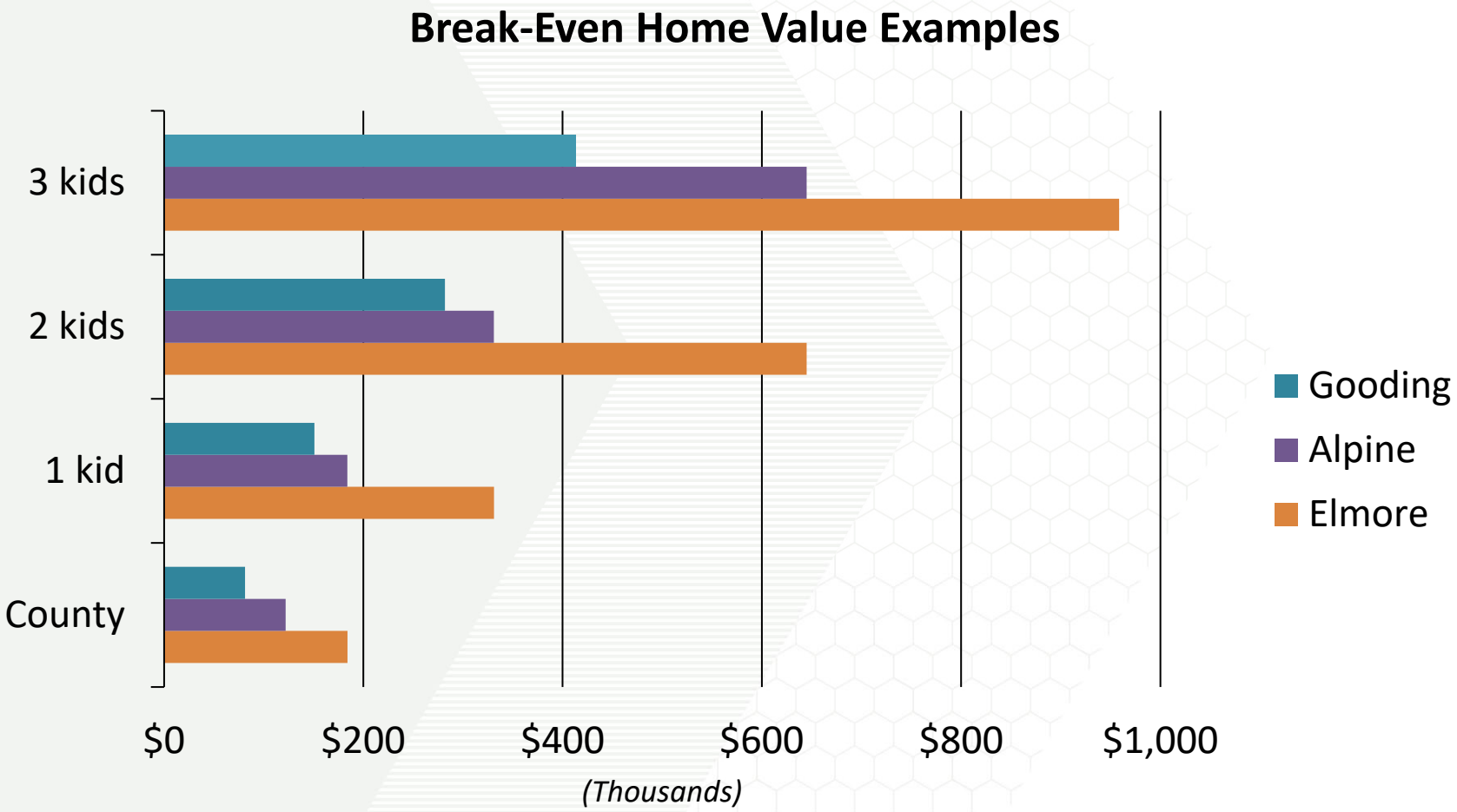
New residential growth also results in….

- Increased educational costs
- Increased local government expenditures

Do households generate enough revenue to pay for the increase in government expenses?



Source: Dr. Jeffrey Dorfman, The University of Georgia



Source: Dr. Jeffrey Dorfman, The University of Georgia

TAX DIGEST SPLIT

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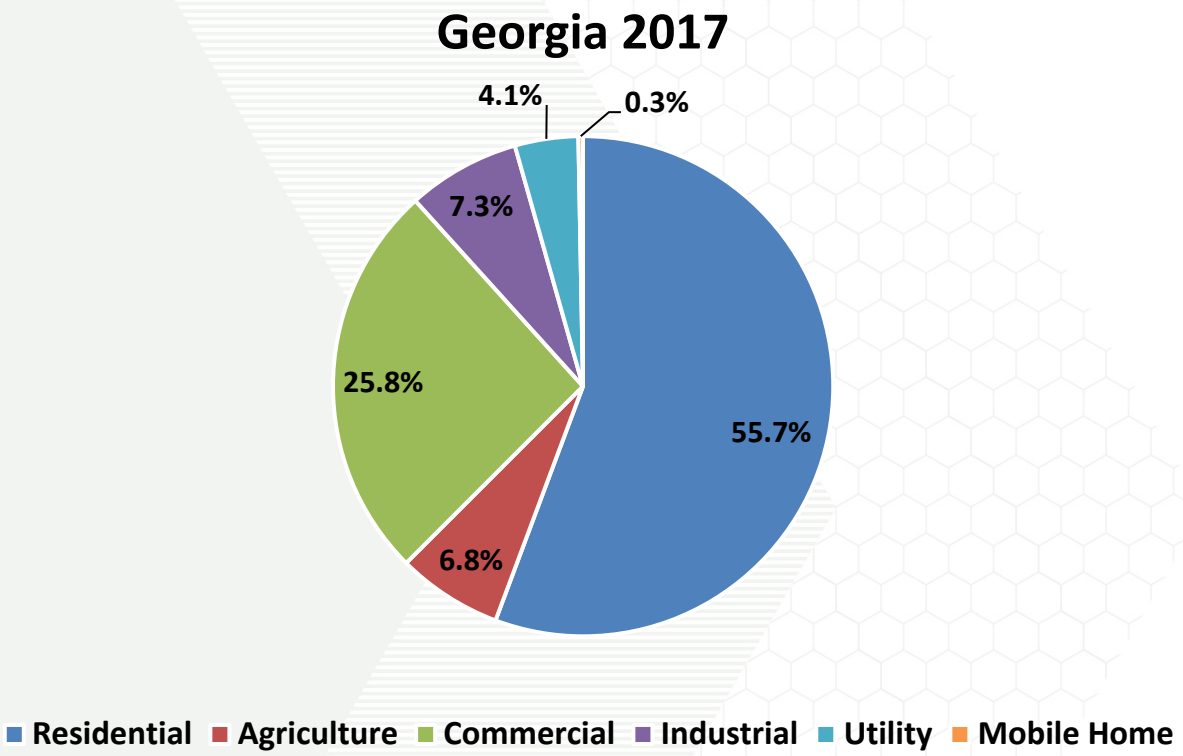

How is your community's digest split?

COMMERCIAL/INDUSTRIAL/UTILITY SHARE STATE OF GEORGIA

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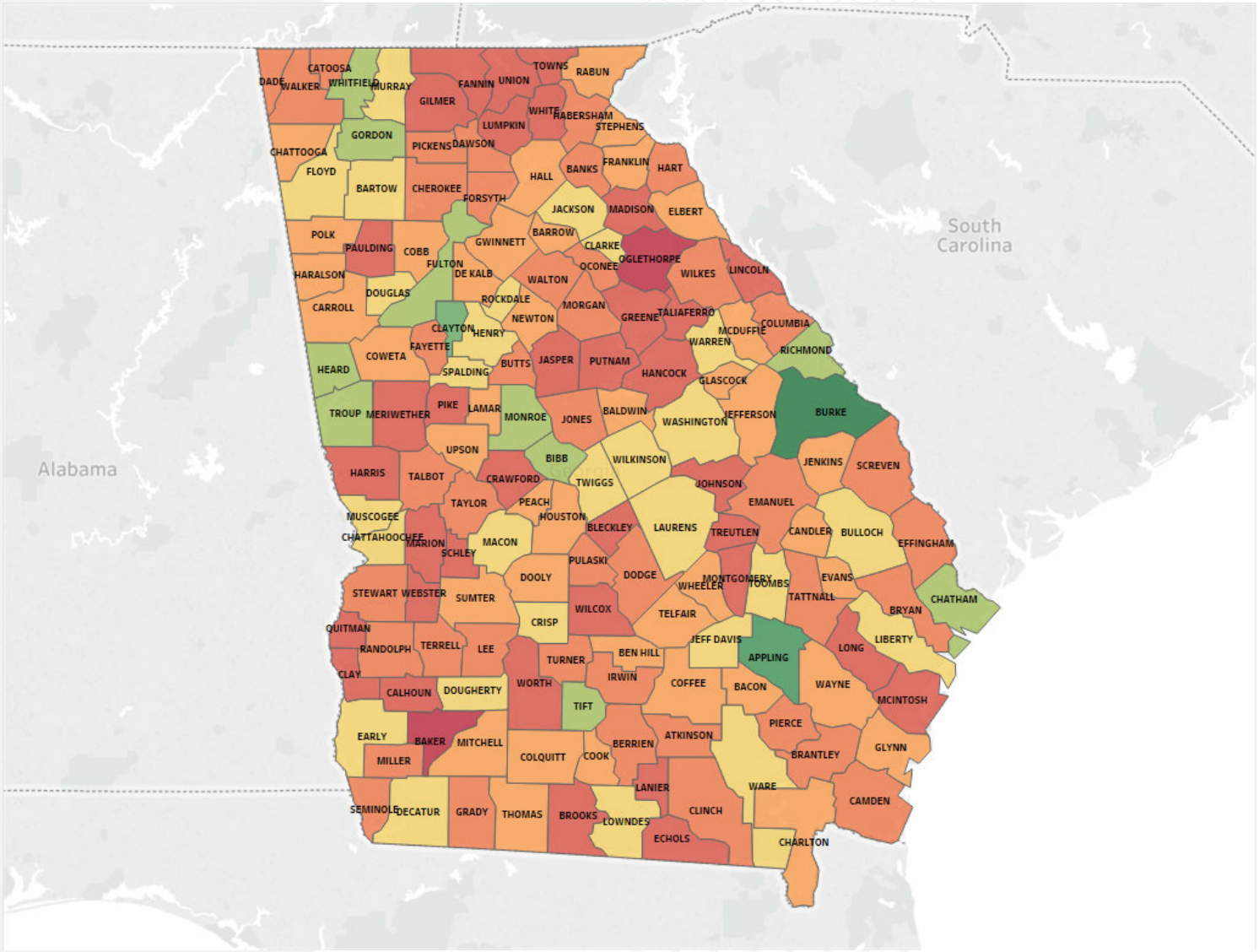

2017 Gross Tax Digest. Source: Georgia Department of Revenue, Tax Digest Consolidated Summaries

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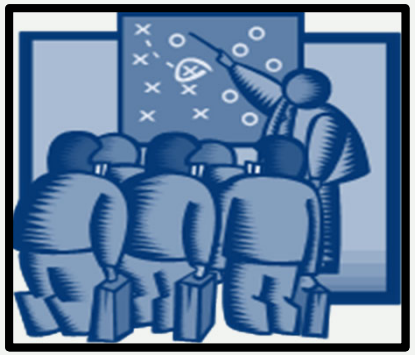
When will you offer tax abatements or any other local incentive? What is your strategy?

First Rule: Make sure the project is competitive!!

HAVE ONE!

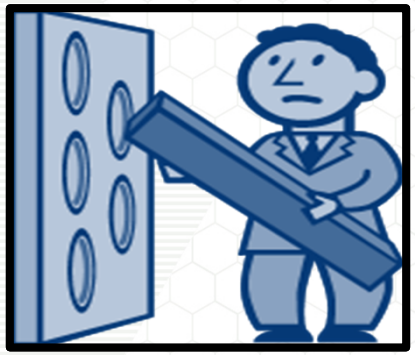


Put your strategy in place BEFORE a project comes looking at your community

SPECIFIC GOALS

- What does your community want to be?
- Target industries?
- Target areas?

UNIQUENESS



- One size does not fit all
- Your strategy needs to fit your goals
- Every company has different needs …ASK!!

AFFORDABILITY

- Understand the FISCAL impact of your offer
- Don't get pulled into paying too much.

PROJECT EXAMPLES – DATA CENTER #1

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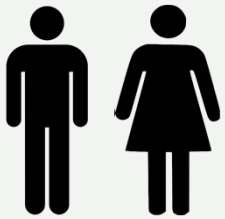


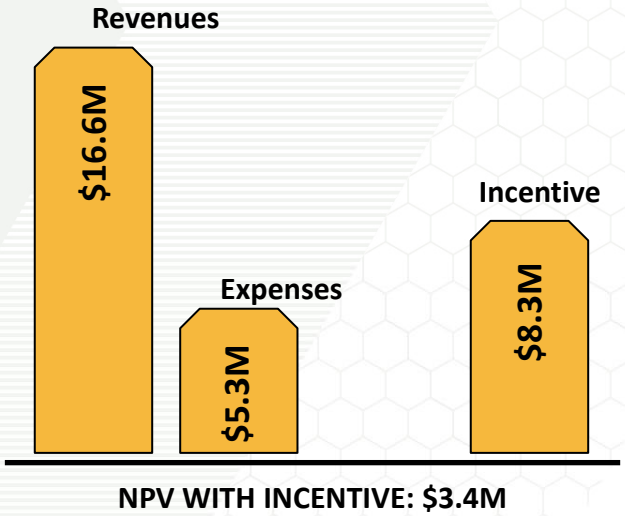
110 new jobs

$250M CAP EX

Incentives:

- 10-year phased in abatement on real property
- 4-year phased in abatement on personal property
- All abatements included the school tax

10-year fiscal analysis:



NPV WITH INCENTIVE: $3.4M

PROJECT EXAMPLES – DATA CENTER #2

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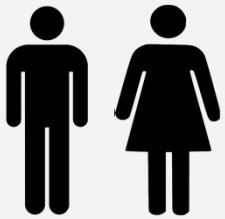


19 new jobs
@$83,000/yr.

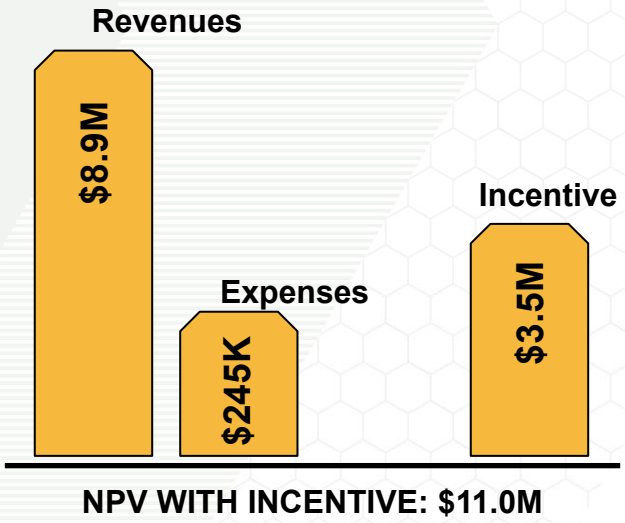
$250M CAP EX

$1B initial estimate
$600M revised
$250M final

Incentives:

- 10-year phased in abatement on real property
- 4-year phased in abatement on personal property
- All abatements included the school tax
- $174K in system development charge waiver

10-year fiscal analysis:



Government Finance Officers Association

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RECOMMENDATION:

LETTER OF TRANSMITTAL SHOULD INCLUDE:

1. COST BENEFIT ANALYSIS (FISCAL IMPACT ANALYSIS)
2. EXPLANATION OF HOW TAX ABATEMENTS ARE ACCOUNTED FOR AND INCORPORATED INTO THE BUDGET PROCESS
3. DESCRIPTION OF THE POLICIES GOVERNING TAX ABATEMENTS AND METHODOLOGIES USED TO DETERMING RETURN ON INVESTMENT
4. IDENTIFICATION OF THOSE RESPONSIBLE FOR MONITORING COMPLIANCE AND ABATEMENT AGREEMENTS
5. RELATIONSHIP BETWEEN TAX ABATEMENTS AND GOVERNMENTS GOALS
6. FIVE-YEAR CHART OF BENEFITS ANTICIPATED
   - FINANCIAL
   - NONFINANCIAL

FISCAL ANALYSIS STRATEGY FOR GASB 77

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WHO DOES IT?

- Internal analysis?
- Independent third party?

KEEP IT SIMPLE

- You don't need a multi-page report
- Aggregate your projects for GASB 77 reporting
- A short summary paragraph and a five-year chart of benefits will work.

BE CONSISTENT

- Make fiscal analysis a habit
- Analyze every project
- Adjust old projects as employment and investment numbers are realized.

EVALUATE

Make adjustments to your economic development policies to better meet your community goals

That's all Folks!

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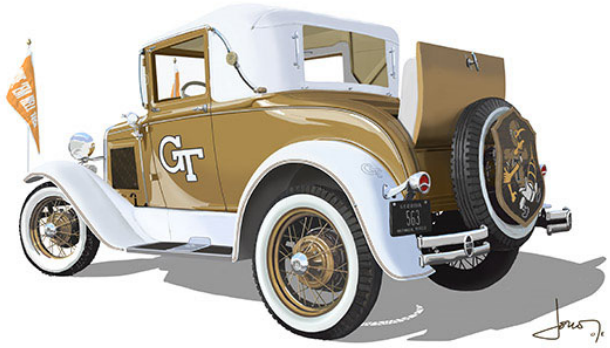

QUESTIONS?

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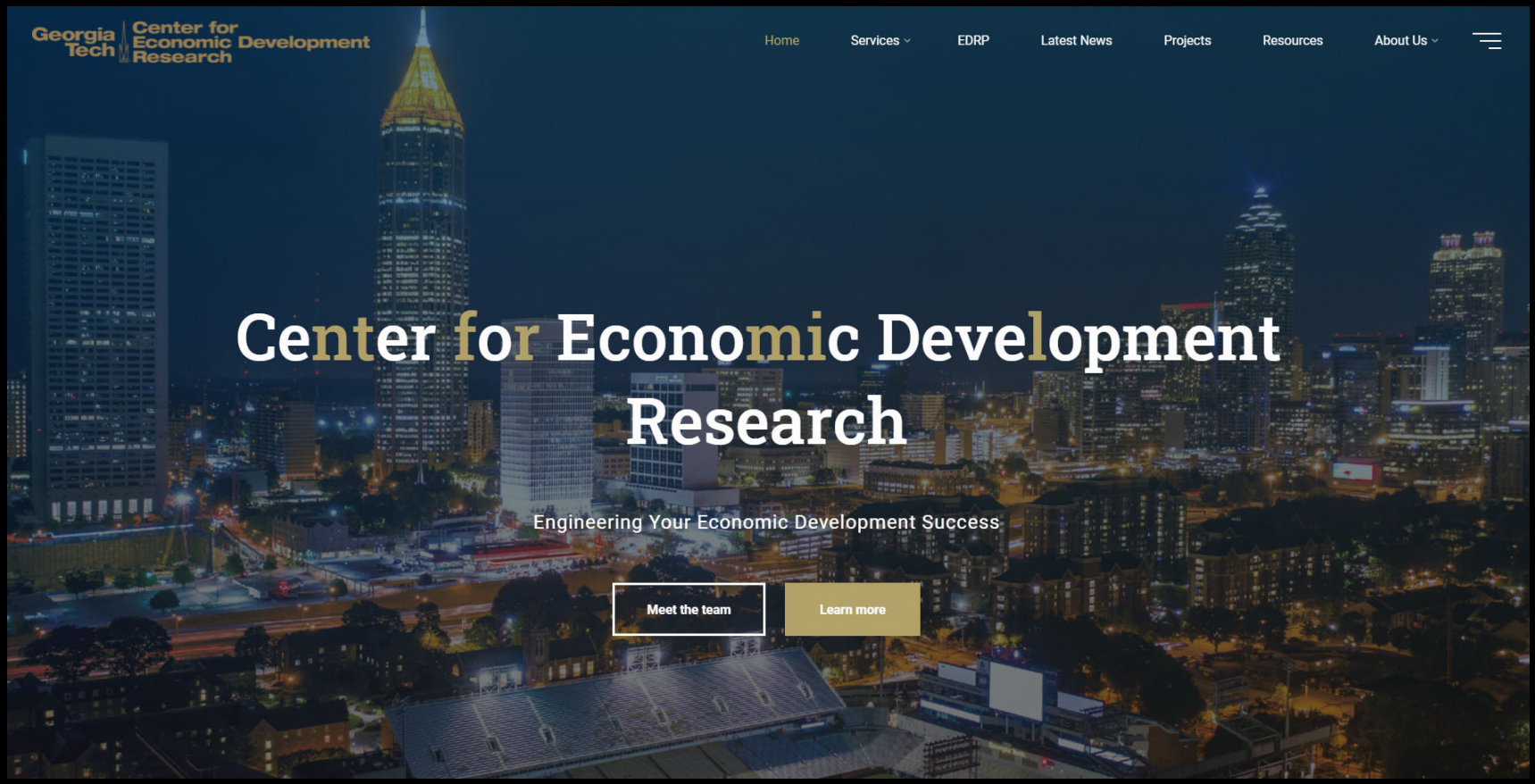
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